1963

The nature and extents of competition between mutual savings banks and selected types of other financial institutions in Massachusetts.

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THE NATURE AND EXTENT OF COMPETITION BETWEEN MUTUAL SAVINGS BANKS AND SELECTED TYPES OF OTHER FINANCIAL INSTITUTIONS IN MASSACHUSETTS

by

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Thesis submitted to the Graduate Faculty in partial fulfillment of the requirements for the degree of Master of Business Administration.

UNIVERSITY OF MASSACHUSETTS

AMHERST

SEPTEMBER 1963

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PREFACE

In September, 1961, the School of Business Administration received a grant from the City Savings Bank of Pittsfield, Massachusetts to study the competitive power of mutual savings banks.

As a Graduate Assistant in Business Administration, the writer was assigned to work with Drs. Sterling Surrey and Pao Lun Cheng on the project. It is from this contact with the project and its directors that interest in the present topic developed.

For this study it was decided to compare mutual savings banks with commercial banks, savings and loan associations (including federal savings and loan associations and state-chartered co-operative banks) and life insurance companies in terms of deposit (reserves in the case of life insurance companies) growth.

In this paper the writer will endeavor to show, through an analysis of statistical and other data, why mutual savings banks in Massachusetts have been more successful in their competition (or their ability to avoid such competition) with alternative savings media, especially commercial banks, than have been these same institutions in other states. At this point it should be made clear that, in this context, competition means the rivalry between certain selected financial institutions in their attempts to secure for themselves, an ever increasing percentage of total savers' funds in their respective states. Further, the term competitive position, as used here, means the percent of total savings held by a given category of institutions as compared to the percent of total savings held by other institutions.

Life insurance companies, although not competing directly with mutual savings banks, are included in the study for reasons which will be explained more fully later. It will be sufficient to point out here that by advertising such extras as endowment policies, annuities and education plans (which enable parents to provide for the future education of their children), these companies are definitely providing services traditionally, though tacitly, provided by mutual savings banks. It will be shown later that, in the context of competition, the growth of life insurance reserves may be compared with mutual savings bank deposit growth. However, because the nature of life insurance reserves and the reasons for their growth are not strictly comparable with savings deposits, references to them here should be considered a digression the purpose of which is only to make complete the discussion of the major financial institutions with which savings banks directly or indirectly compete.

Major emphasis will be focused on competition of savings and loan associations and, especially, commercial banks.

Credit Unions are not included for the following reasons: First, the proportion of total savings held by credit unions in Massachusetts is quite small. For example, of total savings held by United States financial institutions of 8.7 billion dollars as of December 31, 1960, 5.8 billions were held by mutual savings banks, .8 billion by commercial banks, 1.9 billion by savings and loan associations and .2 billion by credit unions. Second, because credit unions are, to a large extent, organized and operated by employers, organizations and other relatively private groups, they do not compete openly in the savings market as do the other institutions studied. Third, because they are relatively private co-operative institutions, their raisons d'etre are significantly different from those of the other institutions as are their methods of operation. For example, credit unions under federal law cannot make unsecured loans of more than $400. Although larger secured loans are allowed, the size of the institutions limits their ability to grant them. It can also be noted that most credit union officers contribute their services without charge, and in some cases the premises are provided by an employer or other person without charge.

Although bank holding companies do not compete directly with mutual savings banks, they were included because of their very considerable influence in the Massachusetts commercial banking community. In this connection, it will be shown that these holding companies control through majority stockholding, nearly half of all commercial bank offices in Massachusetts. Further, there is evidence that savings banks may have considerable influence in these holding companies, through representation on their Boards of Directors.

Finally, I wish to express my sincere appreciation for the many helpful suggestions and criticisms which were offered by Dr. Sterling Surrey (now deceased) and the members of my thesis Committee, Drs. Pao Lun Cheng (Chairman), James B. Ludtke and Marshall Howard, all of the University of Massachusetts.

Although I have attempted to include virtually all of the recommendations made by these gentlemen, the paper does, naturally, represent my own work. For this reason, I must assume responsibility for the finished product.

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INTRODUCTION

Historical Background

The first mutual savings bank was organized at Ruthwell, Scotland, in 1810. In 1765, "savings banks" in a different form were established on the Continent. The idea had been supported by the clergy and such well-known figures as Daniel Defoe, David Ricardo, Jeremy Bentham and Thomas Malthus. Actually, in 1797, Bentham helped to organize a "Frugality Bank" which differed little from modern mutual savings banks.

Literature describing the organization of these banks and the social benefits to be gained by their establishment eventually came to the attention of leading citizens in Boston, New York, and Philadelphia. Through the efforts of these men, the savings bank movement in America had its start. The first public notice appeared in the December, 1816, issue of the Christian Disciple, a small religious monthly in Boston, announcing that:

> "It is proposed to form an institution in Boston for the security and improvement of the savings of persons in humble life and required by their wants and desires. A meeting of this has been

> called and a large and responsible committee appointed to apply to the legislature (now in session) for an active incorporation and to digest suitable rules and bylaws to be proposed ... Similar institutions exist in England and Scotland .... "

Actually, however, the honor of being the first state to have an operating savings bank goes to Pennsylvania where the Philadelphia savings fund society opened for business on September 2, 1816. The Provident Institution for Savings in Boston did not begin to transact business until the Spring of 1817.

As a result of the success of these two savings banks, others were organized in other cities which had large laboring classes and civic minded people. The Savings Bank of Baltimore and the Salem Savings Bank were both founded in 1818. Within a year, savings banks were also operating in New York City, Hartford, Newport, and Providence.

Backed with a sound organization and providing a needed service in their communities these early savings banks enjoyed rapid growth from the beginning. As an example, the deposits of the Provident Institution reached $600,000 within a period of three years and in another twelve years, had passed the $2,000,000 mark. This rate of growth was fairly typical.

As these savings banks demonstrated their ability to provide needed services in their communities and as the public began to understand their operations, many new banks were founded. By 1830 there were 36 savings banks with 38,000 depositors, and 7 million dollars in deposits. Twenty years later the number of banks had trebled and the number of accounts and the volume of deposits had increased more than sixfold. In 1875 there were 674 mutual savings banks with approximately 2,170,000 depositors and 850 million dollars of savings deposits.[1]

The reasons for this rapid growth are as follows: (1) There was a need for thrift services among the growing numbers of people in the urban industrial East. (2) The savings bank account was well adapted to meet this need; the savings account was a convenient and very flexible system because the banks accepted deposits of as little as five cents to one dollar at any time and the deposit could be withdrawn whenever needed. Also, being mutual institutions, all earnings, after deductions to meet current operating expenses and such reserves as were needed for the protections of depositors' funds, belonged to and were paid to depositors. The banks were thus able to add an earnings incentive to the factors of safety and convenience. (3) Mutual savings banks were well adapted to meet the increasing need for mortgage monies as our population expanded. This point is substantiated by the

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1. John Lintner, Mutual Savings Banks in the Savings and Mortgage Markets (Andover: The Andover Press, Ltd., 1948), p. 50.

fact that in all years for which records are available until the outbreak of World War II, mortgage loans constituted the largest single category of assets owned by savings banks. This has continued up to the present time with the exception of a rather brief period during and after World War II.[2]

Of the 518 mutual savings banks existing at the end of 1959, about two-fifths were founded before 1860 and four-fifths before 1875. Only 36 of these banks, or about 7 per cent of the total number, were formed since the turn of the century and, of these, 25 were established before 1920. Only 11 of the existing banks were established since 1920, 4 in the 1920's and 4 in the next decade. More than three-fifths of the banks now existing date from the period between 1850 and 1875, when the rate of formation of mutual savings banks was at its peak.

New England banks are the oldest institutions in the nation, while those in the Middle Atlantic region rank second in age. Those in the far west are the newest, dating from the 1880's and after.

The number of mutual savings banks reached a peak of 666 in 1875 and declined thereafter.[3] Today (1962) these

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2. National Association of Mutual Savings Banks, <u>Mutual Savings Banking: Basic Characteristics and Role in the National Economy</u> (New York: National Association of Mutual Savings Banks), p. v-1.

3. <u>Ibid</u>., p. ii - 11.

institutions hold total deposits of over 38 billion dollars at 515 banks having over 1,000 offices in 18 states. As of December 31, 1961, these banks had total assets of nearly 43 billion dollars of which about 29 billions were invested in real estate mortgages; thus demonstrating the traditional interest of these institutions in residential mortgage lending.[4]

Characteristics of Mutual
Savings Banks

Mutual savings banks have, from the beginning, been institutions without stockholders with assets managed for the benefit of their depositors. These depositors are, in a sense, creditors of the bank and are the recipients of all earnings after payment of expenses and the allocation of portions of income to reserve accounts to protect depositors from loss. When a bank is established, its organizers advance the initial guarantee fund which may be returned to them gradually as reserves are accumulated from earnings.

Mutual savings banks are managed by boards of trustees who establish general bank policies, elect officers, supervise the accumulation of reserves and payment of dividends to depositors and oversee investments. In several states the trustees elect their successors. In New England, Maryland and Wisconsin, a board of corporators elect trustees from

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4. National Association of Mutual Savings Banks, Facts and Figures, Mutual Savings Banking, Supplement to Annual Report, May 1962, pp. 6f, 7f.

among its own membership. In no states are trustees elected directly by the depositors. Here mutuality ends, and a kind of paternalism takes over.

Through the trusteeship principle on which they operate, mutual savings banks differ basically from other types of mutual institutions. The development of this trustee system reflects the origins of the institutions. Here and abroad, mutual savings banks were organized by persons of means who wished to encourage habits of thrift among the growing class of industrial wage earners for whom no institutional savings media then existed.[5]

Sources of Funds

Financial institutions, including mutual savings banks, compete for savings in terms of rate of return, safety, liquidity, convenience and service. Their ability to compete is influenced by tradition and law, especially in regard to the sources and uses of funds available to them.

Mutual savings banks compete for savings primarily in the communities where they operate. Banking-by-mail services have extended somewhat, the range of mutual savings banks, but accounts from outside the community often reflect retention of deposits by persons who have moved away, rather than the opening of new accounts.

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5. Mutual Savings Banking: Basic Characteristics and Role in the National Economy, p. ii - 5.

Legislation limiting the number and geographical distribution of branches also tends to make mutual savings banks almost wholly local institutions. These factors, quite naturally, affect the ability of individual institutions to take advantage of sources of funds in other areas.[6] Generally the branch laws applicable to mutual savings banks are more restrictive than those applicable to commercial banks.

The types of deposits which an institution is authorized to offer its customers also has an effect on its ability to compete. In recognition of this fact a number of plans have been proposed for paying the maximum rate of return on savings from the day of deposit to attract new funds but making payment of this rate contingent upon the maintenance of the deposit at the bank for a certain minimum period of time. This, of course, calls to mind the recent revision of Regulation Q by the Federal Reserve, effective January 1, 1962, which permits commercial banks to pay 3½ per cent on deposits held for at least six months and 4 per cent on those held for one year. Among the new proposals are the deferred credit plan, the deposit investment certificate, the notice account and the bonus account.[7]

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6. Ibid., p. 11-15.

7. New York University, The Future of Savings Banking in New York State. A study directed by Dr. Paul S. Nadler (New York: New York University, 1961), pp. 27-28.

Mutual savings banks are subject to a number of restrictions which are not generally applicable to their most important competitors. These include limitations not only on the nature, but also on the size of their accounts. Such limitations, according to one authority, can have a detrimental effect on the growth and competitive power of financial institutions.[8] This would, of course, limit the institutions' ability to attract large deposit-by-mail accounts as well as those made directly at the bank.

In New York State a savings bank may not have on deposit to the credit of a one-name-individual account more than $10,000 exclusive of interest. In Massachusetts, the limit is $10,000 exclusive of interest, subject to certain qualifications. On the other hand, in New Jersey, (which, in terms of percentage gains in regular deposits from 1946 to 1961, has been the most successful mutual savings bank state) the limit is $25,000 if the amount does not exceed 10 per cent of the bank's surplus, otherwise, the limit is $10,000. In contrast, Federal savings and loan associations have no specific limits.[9]

The return paid to savers is probably the most obvious means available to a financial institution seeking to strengthen

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8. Ibid., p. 34.

9. Mutual Savings Banking: Basic Characteristics and Role in the National Economy, p. 111-23.

its competitive position. It is probably also one of the most effective.

This point was supported by Mr. John Lintner in his study of mutual savings banking. In concluding the section of his book which deals with the importance of interest rates as competitive weapons, Mr. Lintner states that:

> "Since the interest rate shows itself to be a significant factor influencing the movement of deposits, it may be concluded that the higher rates of return offered by co-operative banks and federal savings and loan associations has been one significant factor furthering the generally increasing share of the savings depository market which they have generally enjoyed within the last ten years as well as in the earlier period of expansion culminating in 1930."[10]

There are many services which can be, but not always are, offered by mutual savings banks and other institutions which affect their ability to attract funds. Any list of such services or "products" would include: checking accounts, travelers checks, letters of credit, credit information, trust services, safe deposit boxes, acceptance and payment of drafts, banking-by-mail, club accounts, money orders, savings accounts, mortgages, and personal loans.[11]

Although mutual savings banks do not provide all of these services, it would be difficult to argue that their ability to offer many or most of them would not strengthen

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10. Lintner, p. 67.

11. Raymond P. Kent, Money and Banking (New York: Rinehart and Company, Inc., 1947), p. 153.

their competitive power. The ability to do so has, after all, been one of the most popular competitive weapons used by commercial banks. It is this which has earned for them their reputations as "financial department stores."

Uses of Funds

In addition to safeguarding the funds of their depositors and adequately providing for liquidity, mutual savings banks must offer competitive rates of return to savers and accumulate from earnings reasonable protective reserves. Adequate earnings are basic to the performance of the savings bank functions of encouraging thrift and stimulating the flow of saving into productive investments that will contribute to economic growth. Further, earnings permit savings banks to build the reserves needed for the protection of deposits. It is generally agreed among savings bankers that, in view of increasing competition for savings by alternative media, mutual savings banks must find ways to increase substantially their earning power. Thus, we see the importance of secure but lucrative investments as an outlet for the funds held by the savings bank industry.

Mutual savings bank investments are, naturally, diversified. However, they also reflect the rather narrow range of capital market instruments in which these institutions may legally invest, especially as compared with commercial banks. These investments are, unlike those of commercial banks, generally long-term. This reflects partly the relatively low rate of turn-over of mutual savings bank deposits. These turn-over rates are shown in Table 1. During the postwar period real estate mortgages have grown steadily as a proportion of assets, but the banks still have sizeable holdings of U.S. Government obligations, corporate securities, and state and local obligations.

During the period 1946-1959, savings banks increased their investment in mortgages by 20.6 billion dollars or 94 percent of their net asset gain in the period. Savings banks also increased their holdings of corporate securities and state and municipal bonds by 3.7 billion and 0.6 billion, respectively, and reduced their holding of U.S. Government obligations to supplement deposit gains by 3.8 billion. Even during the great real estate boom of the 1920's, mutual savings banks did not apply more than 73 percent of their net asset gain to mortgages.[12]

Although part of the recent heavy investment in mortgages can be attributed to higher personal incomes, Federal guarantee programs and population increases, it would also seem to reflect an increased interest by the banks in these relatively high yield investments. Table 2 gives a concise picture of mutual savings bank investment policies during the period 1946-1959.

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12. Mutual Savings Banking: Basic Characteristics and Role in the National Economy, p. iv - 27.

TABLE 1

Turnover Rate on Savings Deposits

Selected Institutions,

1950-1959

	Commercial Banks	Mutual Svgs. Bnks.	Savings and Loan Associations
1950	47.9	27.5	28.8
1951	45.9	27.4	28.9
1952	46.2	25.2	27.0
1953	46.1	25.0	27.6
1954	45.9	25.1	26.5
1955	46.6	26.9	29.4
1956	48.7	26.3	30.4
1957	47.6	26.2	30.2
1958	--	24.8	28.0
1959	--	27.8	30.3

Note: Turnover is per cent of withdrawals, repurchases or redemptions during the year to average of savings or shares held.

Source: American Bankers Association, Statistics on the Savings Market, 1960 Edition, p. 11.

TABLE 2

Net Inflow of Investment Funds

from Mutual Savings Banks

1946-1959

(in millions of dollars)

Year	Total	Mortgages	SECURITIES U.S. Govt's.	State & Municipal	Corpor. & Other	Other Invest.	Cash
1946	1,700	249	1,095	-20	136	31	209
1947	1,062	405	239	-1	324	29	66
1948	758	727	-475	15	472	22	-3
1949	1,020	896	-65	17	168	10	-6
1950	944	1,560	-567	*	-12	43	-80
1951	1,058	1,708	-1,050	54	220	35	91
1952	1,796	1,484	-384	196	435	31	34
1953	1,899	1,561	-252	92	386	47	65
1954	2,151	2,053	-436	180	237	73	44
1955	1,996	2,434	-291	38	-182	57	-60
1956	2,035	2,280	-482	29	183	71	-46
1957	1,834	1,412	-399	10	795	47	-31
1958	2,569	2,067	-313	44	627	112	32
1959	1,481	1,870	-337	-7	-83	107	-69

* Less than $500,000

Source: National Association of Mutual Savings Banks

CHAPTER 1

THE COMPETITIVE POSITION OF THE MUTUAL SAVINGS BANK INDUSTRY RELATIVE TO OTHER SELECTED FINANCIAL INSTITUTIONS ON A NATIONWIDE BASIS

This chapter examines the national mutual savings bank industry in its competition with alternative savings media. There are, obviously, some limitations involved in comparing mutual savings banks with other institutions which operate over a much wider area. However, it is felt that the data presented below, which show the declining national importance of mutual savings banks, will give the reader a general view of the national savings situation and provide a point of departure for a more detailed study of Massachusetts. Although this nationwide study of the mutual savings bank industry is not strictly relevant to a study of competition for savings in individual states, it is an important part of the general view of savings banking with which this paper is, secondarily, concerned.

Deposit Growth

Deposits at mutual savings banks have shown sustained growth since around the turn of the century. In only three years, 1933, 1941, and 1952, did these institutions experience net reductions in their deposits. Savings banks enjoyed a 128 percent rise in total deposits during the period 1945-1959, and a fifteenfold increase since 1900. Nevertheless, within the savings account field, the savings banks have lost ground relatively since the turn of the century. Deposits at mutual savings banks have declined from about three-fifths of the total amount of savings deposits and share accounts held in all types of institutions in 1900 to somewhat more than one-fifth in 1959 while the relative importance of savings and loan associations and commercial banks has increased. This is shown in Table 3.

The Development of Savings and Loan Associations and Commercial Banks as Savings Bank Competitors

The decreasing share of mutual savings banks in the savings account market reflects a number of factors. First of all, competition from other savings media has increased. Prior to the 1880's, mutual savings banks had little competition from other savings account institutions. During that decade, however, savings and loan associations, originally set up to finance their members' home building (they were originally called building societies) began to develop a permanent plan of organization to attract nonborrowing savings members as well as borrowers. Also in 1905, when

TABLE 3

Percentage Distribution of Savings Deposits and Share Accounts, By Type of Financial Institution, Selected Years, 1900-1959

End of Year	Total	Mut.Sav. Bks.	Sav. & Loan Assn.	Comm. Banks	Postal Svgs.	Credit Unions
1900	100.0	62.7	11.9	25.4	---	---
1910	100.0	45.8	9.1	45.1	---	---
1920	100.0	27.8	10.1	61.1	1.0	---
1930	100.0	27.1	18.2	53.9	.7	.1
1940	100.0	33.3	13.5	48.3	4.2	.6
1945	100.0	27.4	13.1	54.5	5.4	.7
1950	100.0	27.4	19.1	48.1	4.2	1.2
1955	100.0	25.3	29.0	41.7	1.8	2.2
1959	100.0	22.2	34.6	39.8	.6	2.8

Note: Data are percentages of savings held at year-end in selected media. Figures for 1900 and 1910 are not strictly comparable with those for later years.

Source: Federal Home Loan Bank Board, 1920-1959.
Raymond W. Goldsmith, A Study of Saving in the United States, 1900 and 1910.

few national banks had savings departments, the Comptroller of the Currency ruled that the opening of savings departments by national banks was not prohibited by the National Bank Act. This action facilitated the entry of increasing numbers of commercial banks into the thrift field. Section 19 of the Federal Reserve Act of 1913 gave further impetus to commercial bank interest in savings by requiring much smaller reserves against time deposits than against demand deposits. Then, beginning in the 1930's, public policy designed to stimulate housing has stimulated expansion of the savings and loan industry.[13]

The Effects of Shifts of Population Centers

Second, changes in the relative positions of the leading types of institutions reflect geographic factors. Mutual savings banks are limited primarily to the northeastern United States, whereas both savings and loan associations and commercial banks are located throughout the nation. The sections of the country where mutual savings banks operate are older and have grown less rapidly in terms of both population and income in the past few decades than have some of the more recently developed areas, especially in the far west. The most direct reason for the failure of mutual savings

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13. *Ibid*., pp. 1-78.

banks to move into the more recently developed areas seems to be the lack of legislation providing for their establishment in all states except the 18 in which they now operate.

According to the National Association of Mutual Savings Banks these are several reasons for this. Four of these reasons seem especially plausible. First, the economic and social conditions which are prerequisites for the organization of mutual savings banks were lacking in the West. The frontier areas were dominated by agriculture, mining and lumbering, none of which generated a serious need for savings facilities. Second, a pronounced shortage of capital in these developing areas created a need for the credit creation which commercial banks were able to provide. As a result, commercial banks had become well established by the time industrial and commercial development had advanced to the point where savings were being accumulated by wage earners. Then, when the need for savings facilities arose, the commercial banks were in a position to provide them. Third, the demand for liberal mortgage credit led to the widespread organization of savings and loan associations. In spite of the greater risks involved savers were also attracted by the high rates of return made possible by the relatively high level of mortgage yields. Fourth, savings and loan association charters involved a much smaller advance of funds by their organizers than did mutual savings bank charters.[14]

14. Ibid., p. II-9.

Thus, it appears that enabling legislation is lacking in many of these areas because, for such a long period, all of the financial needs of individuals could be provided by existing institutions. Further, as a result of their long existence, these institutions can probably exert considerable influence in order to prevent the establishment of potential competitors.

Branch Offices

Third, according to the National Association, the ability of mutual savings banks to serve their communities may be limited in many cases by their relatively limited branching powers. Mutual savings bank offices are far less numerous than the offices of commercial banks or savings and loan associations in the 17 savings bank states.

In 1958 there were .13 mutual savings bank offices for each 10,000 persons, .54 for savings and loan associations and 1.26 for commercial banks. Commercial bank offices outnumbered those of savings banks in every state and in all but five states, Massachusetts, New Hampshire, Rhode Island and Washington, savings and loan association offices were also more numerous. This is shown in table 4.

Legal restrictions on the establishment of branch offices of mutual savings banks, commercial banks and state-chartered savings and loan associations are set by the individual states. Branching powers of Federal savings and loan associations are determined by the Federal Home Loan

TABLE 4

Number of Offices in Relation to Population, Mutual Savings Bank, Commercial Banks, and Savings and Loan Associations in Mutual Savings Bank States

December 31, 1958

States	Pop. (Thous.)	Total Offices: Mut. Sav. Bks.	Comm. Bks.	Sav. & Loan Assn.	Offices per 10,000 persons: Mut. Sav. Bks.	Comm. Bks.	Sav. & Loan Assn.
N.Y.	16,229	266	1,669	328	.16	1.03	.20
Mass.	4,862	284	493	223	.58	1.01	.46
Conn.	2,312	113	240	60	.49	1.04	.26
Pa.	11,101	51	1,414	910	.05	1.27	.82
N.J.	5,749	41	629	505	.07	1.09	.88
Md.	2,956	40	350	403	.14	1.18	1.36
N.H.	584	35	78	26	.60	1.34	.45
R.I.	875	30	94	17	.34	1.07	.19
Maine	952	35	175	34	.37	1.84	.34
Wash.	2,769	11	342	94	.04	1.24	.32
Minn.	3,375	1	692	91	--	2.05	.27
Del.	454	4	71	39	.09	1.56	.86
Vt.	372	7	88	9	.19	2.37	.24
Ind.	4,581	4	707	260	.01	1.54	.57
Or.	1,773	1	220	35	.01	1.24	.20
Ohio	9,345	17	1,157	721	.02	1.24	.77
Wis.	3,938	4	704	154	.01	1.79	.39
TOTAL	72,231	944	9,123	3,909	.13	1.26	.54

Source: Bureau of the Census and National Association of Mutual Savings Banks.

Bank Board. In practice, according to a vice president of the Federal Home Loan Bank of Boston, federal savings and loan associations have been subject to the most liberal branching regulations governing their competitors in their respective states.

Although state laws affecting branches of both commercial banks and mutual savings banks are generally restrictive, they tend, according to the Association, to be more rigid for mutual savings banks. As evidence that these limitations operate against savings banks, it is shown that at the end of 1959, about 70 percent of mutual savings bank branch offices were in home office cities compared with 39 percent for commercial banks. Further, savings bank offices located outside head office cities were most often in the same county as the head office. Commercial banks in contrast, had a rather large proportion of their branches in counties contiguous to head office counties.[15]

Other Factors

Fourth, other competitive factors, including relative rates of return, differences in promotional efforts, changes in the legal and regulatory framework in which the different types of institutions operate and changes in the attitudes of individuals toward thrift, have caused a relative decline in

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15. Ibid., p. II-16.

the importance of mutual savings banks.

In this latter connection, Mr. John S. Howe has pointed out that the status of thrift as a Puritan moral principle and its practical importance have both changed considerably in recent years.

With regard to the former, it may be true that, partly as a result of the increased influence of Keynesian economists, the value of thrift has been deemphasized while the idea of greater spending and velocity of spending as the key to general prosperity has been advanced. This is not meant to imply that the average saver has read and endorsed Keynes "General Theory" and that he bases his decisions to save or spend on the ideas expressed there. It does seem possible, however, that these ideas may have, to some extent, reduced the traditional puritan value of thrift as an absolute good. Such a change in attitudes more probably affects mutual savings banks, which specialize in providing thrift facilities, more than it would affect many other institutions, i.e. commercial banks and life insurance companies.

With regard to the decreased need for savings, it is no doubt true that the increasingly widespread coverage of Social Security, private pension plans, unemployment insurance and medical and hospital insurance, have resulted in a decreased need for individual and family thrift.

Further, the more generous terms for financing homes, automobiles, appliances and other large purchases than were formerly available has reduced the need for saving large sums to cover down payments for these major items. These changes probably have an especially strong effect on mutual savings banks which,as the turnover rates in Table 1 show, have tended to attract relatively stable funds. This stability probably indicates that the savers are attempting to accumulate sizeable sums of money in order to cover large future outlays.

Another possible threat to saving may be the spectre, if not the actuality, of inflation. This may encourage potential savers to invest in stocks or real estate as hedges against the erosion of their funds.

In this connection, Dr. Jules I. Bogen of New York University has said: " .... over the long run, the greatest threat ... to savings banks is inflation." In support of this point he claimed that a widespread belief has developed in this country that inflation is inevitable. If this does happen the savings bank dividend will lose its appeal.[16]

If, as Dr. Bogen suggests, inflation may cause the savings bank dividend to lose its appeal, an adjustment might be made in the dividend to compensate for changes in the cost of living. The change in the real value of the principal as a result of inflation is, naturally, another problem.

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16. John S. Howe, Savings Banks Twenty-Five Years After the Depression, Thesis: Rutgers University, pp. 102, 103.

No attempt will be made here to solve the problem of the effects of inflation on the attractiveness of mutual savings bank deposits. It will be sufficient to mention its existence and probable detrimental effects.

Further, in connection with the above observation by Dr. Bogen, it might be noted that the problem of inflation may be another, and perhaps more important, manifestation of the influence, in government, of Keynesian economists.

Because life insurance companies are engaged primarily in the business of providing protection and, further, because they do not offer savings accounts as such, some writers have apparently not considered them important competitors of mutual savings banks and other thrift institutions. It may be noted, for example, that in his study of mutual savings banking in New York State, Dr. Nadler was concerned only with deposit-type savings media. Mr. Lintner, on the other hand, devotes a full chapter to "The Importance of Insurance as a Medium for Saving."

In this chapter, Mr. Lintner states that:

> "Throughout most of the last century, the American people have been increasing their insurance protection more rapidly than they have been adding to their savings depositories together. They have also increased their actual <u>savings</u> in life insurance alone more rapidly than their aggregate savings deposit balances in other private thrift institutions."

Because this more rapid growth of insurance has reduced the general public's need for and its relative use of savings depositories, Mr. Lintner claims that an understanding of the basic reasons for this development is a matter of vital interest to the managements of all savings depositories.[17]

Although these words were written about fifteen years ago, they still have meaning today. In Table 5 we see that, in the period 1950-1961, deposits at mutual savings banks rose by 18,278 million or 91 per cent; savings and loan associations by 56,859 million or 406 per cent; commercial banks by 40,670 or 115 per cent; and reserves of life insurance companies by 46,770 million or 87%. Although not as spectacular percentage-wise as the growth of savings and loan associations, it should be noted that life insurance reserves have, in absolute terms, grown considerably more than commercial bank time deposits and about two and one-half times as much as mutual savings bank deposits. Further, their rate of growth is only slightly exceeded by mutual savings banks. For these reasons the writer feels that any study of the competitive positions of thrift institutions must include recognition of the importance of life insurance companies in this field.

17. Lintner, p. 67.

TABLE 5

Volume of Individuals' Savings Held in Selected Media,

1950-1961

(in millions of dollars)

End of Period	Mutual Sav. Banks	Sav. & Loan Assn.	Comm. Banks	Reserves of Life Insurance Com.
1950	20,002	13,992	35,200	53,630
1951	20,880	16,107	36,592	57,134
1952	22,578	19,195	39,331	61,142
1953	24,345	22,846	42,001	65,147
1954	26,265	27,252	44,746	69,295
1955	28,113	32,142	46,331	73,733
1956	29,985	37,148	48,525	78,074
1957	31,652	41,912	53,751	82,191
1958	33,993	47,976	60,020	86,618
1959	34,934	54,583	62,949	91,705
1960	36,343	62,142	67,079	95,758
1961	38,280	70,851	75,870	100,400

Source: Federal Home Loan Bank Board, U. S. Treasury Department

CHAPTER 2

THE COMPETITIVE POSITION OF MASSACHUSETTS MUTUAL SAVINGS BANKS

A Relatively Optimistic Situation

Massachusetts is one of the few states in which mutual savings banks have recently demonstrated an ability to compete successfully with other savings media and maintain healthy rates of growth. There are several indications that this is so.

First, mutual savings banks in Massachusetts enjoyed a record net flow of deposits in 1961 of 411 million. This makes Massachusetts, with Connnecticut, New Hampshire and Rhode Island the only mutual savings bank states to establish such records in this period. Also, of the states setting net deposit records in 1961, only one - New Hampshire - exceeded the Massachusetts growth rate in 1961.[18]

Second, it can be noted that, with regard to percentage increase in total deposits, Massachusetts has, both in 1960 and 1961, been exceeded only by Connecticut, New Hampshire and Rhode Island.[19]

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18. Facts and Figures, p. 11 f.

19. Ibid.

Third, when we consider the deposit activity in regular acoounts at mutual savings banks in 1961, we find that, in terms of net new money, Massachusetts ranked first among all states. Further, the state ranked second among all states in terms of net regular deposit gains with an increase of 410.3 million dollars. Connecticut,which ranked third, gained only 192.2 million.[20]

It can also be noted that Massachusetts ranks fourth in terms of the percentage of the total amount deposited represented by the net deposit gain. This is an indication of the relative stability of savings deposits during this period here. In this regard the State was exceeded only by Connecticut, New Hampshire and Rhode Island. These, it will be remembered, are the same states which exceeded Massachusetts in 1960 and 1961 in terms of percentage increase in total deposits. As previously noted, these states also enjoyed a record net inflow of deposits in 1961.

In its annual report of May 1962, the National Association of Mutual Savings Banks points up the shifting importance in recent years of the leading savings bank states with respect to net deposit gains for the industry as a whole. Here it is stated that:

> "The most dramatic change has been the sharply declining significance of New York and the rising importance of Massachusetts and Connecticut

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20. <u>Ibid</u>., p. 14 f.

TABLE 6

Deposit Activity in Regular Accounts in Mutual Savings Banks, by States, 1961 (in Millions of Dollars)

State	Amounts Deposited	Amounts Withdrawn	Net New Money	Interest	New Deposit Gain
New York	6,207.1	6,042.2	164.9	796.5	961.4
Mass.	1,551.0	1,360.1	191.8	218.5	410.3
Conn.	790.4	690.1	100.3	91.9	192.2
Penn.	491.8	474.4	17.4	71.2	88.6
New Jer.	386.9	374.5	12.5	46.0	58.5
N. H.	169.5	138.3	31.2	21.0	52.1
Md.	169.4	169.6	--.2	18.9	18.7
R. I.	169.0	145.8	23.2	15.9	39.1
Maine	118.3	106.4	12.0	13.0	24.9
Vt.	29.8	26.6	3.1	4.9	8.0
All other States	324.2	297.4	26.8	31.9	58.7
TOTAL	10,408.3	9,825.5	582.9	1,329.6	1,912.5

Source: National Association of Mutual Savings Banks

> ... Massachusetts savings banks have increased steadily in relative importance to over one-fifth (of the industry's net deposit gain) in 1961 from one-eighth in 1957 and an average of less than one-twelfth in the years 1947-1951."[21]

It is also interesting to note that in terms of the number of new accounts gained at mutual savings banks in 1961, Massachusetts with 56,300 ranks second only to New York with 56,700. Connecticut with a gain of 52,500 ranked third. These figures are especially encouraging when we realize that mutual savings banks in New York state had assets totaling about 3½ times those of Massachusetts and total deposits in about the same proportion, implying a greater rate of growth in number of accounts for Massachusetts.

Further, as measured by ratios of deposit activity to deposits held in regular accounts in mutual savings banks, the Massachusetts institutions fared quite well in 1961.[22]

Table 7 also reveals some interesting facts about mutual savings banks in Massachusetts. Here we see that, although the percentage of total savings held by mutual savings banks declined between 1945 and 1958, the Massachusetts banks have done relatively well. For example, although the savings bank share of total savings in the state declined from 76.4 percent in 1945 to 70.4 percent in 1958, the state

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21. National Association of Mutual Savings Banks, Annual Report, May 1962, p. 10.

22. Facts and Figures, p. 14 f.

TABLE 7

Percentage Distribution of Savings Held in Selected Types of Financial Institutions, By Mutual Savings Bank States, December 31, 1945 and 1958

	1945				1958			
State	Total	Mut. Sav. Banks	Sav. & Loan Assn.	Comm. Banks	Total	Mut.Sav. Banks	Sav.& Loan Assn.	Comm. Banks
New York	100.0	69.8	2.6	27.7	100.0	65.2	10.9	23.9
Mass.	100.0	76.4	4.3	19.4	100.0	70.4	20.2	9.4
Conn.	100.0	73.5	4.0	22.4	100.0	67.6	15.3	17.1
Pa.	100.0	25.8	5.9	68.4	100.0	21.7	27.8	50.5
N. J.	100.0	18.8	1.0	80.2	100.0	21.3	31.9	46.8
Md.	100.0	42.9	9.1	48.0	100.0	26.7	44.5	28.9
N. H.	100.0	76.9	3.8	19.2	100.0	68.0	16.0	16.1
R. I.	100.0	55.1	1.1	43.7	100.0	44.7	20.7	34.6
Maine	100.0	53.6	0.8	45.6	100.0	53.6	9.7	36.7
Vermont	100.0	36.5	2.9	60.6	100.0	28.0	9.0	63.0
Other Sav. Bank States	100.0	8.9	12.3	78.8	100.0	6.1	45.4	48.5
All Savings Bank States	100.0	47.8	5.4	46.8	100.0	41.7	24.9	33.4

Note: Data include Total Deposits of Mutual Savings Banks, Savings Shares (excluding Mortgage Pledged Shares) of Savings and Loan Association Members of the Federal Home Loan Bank System and Time Deposits (Total) of Insured Commercial Banks.

Source: Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Association of Mutual Savings Banks.

rose from second in terms of per cent of savings held in savings banks to first. This, of course, could mean that mutual savings banks are winning here in the competition with other media for the savers' dollars, when compared with the performance of savings banks in other states. In this connection, it should be noted that the percentage of total savings in Massachusetts held by commercial banks was smaller than in any other state by a considerable margin in 1958.

The writer realizes that the statistics cited above are not conclusive with regard to the competitive power of mutual savings banks in that they are based on only one year and comparisons have not been made with deposit growth at other institutions. On the other hand, it was felt that whereas these figures do give an indication of the recent strength of the industry in this state, they may provide an introduction to the more detailed study which follows.
Table 8 provides still more evidence of the relative success of savings banks in Massachusetts. Here we see that (1) the increase in mutual savings bank deposits here during the period 1948-1960 was exceeded only by New York, (2) the growth of mutual savings bank deposits here as compared to savings and loan associations was exceeded only by New York, Connecticut, New Hampshire and Maine and (3) in terms of dollars and as a percent of the total increase in savings deposits during the period, commercial banks experienced by far the smallest growth in time deposits of any state. Also the percentage of the total increase in savings deposits and

share accounts in each state which was absorbed by mutual savings banks is, it is assumed, a measure of the competitive power of these institutions in these states. In this regard it should be noted that the Massachusetts institutions were able to attract a larger percentage of the total increase during this period than did their counterparts in any of the other states shown.

Referring once more to Table 7, it should be noted that, although the percentage of total savings held by savings and loan associations in the State increased nearly fivefold, this rate of increase was exceeded by several states, notably New Jersey, Maryland, Rhode Island and Maine.

Finally, as shown in Table 9, commercial banks in Massachusetts have shown markedly less disposition to compete for time deposits than have commercial banks in most other savings bank states.

In the first two years for which figures were available commercial banks in only two savings bank states had lower ratios of time deposits to total deposits. In the third year the number had fallen to one and finally, in the last year, the ratio in Massachusetts was lower than in any other state.

It is also interesting to note in this same connection that in each of the states which previously had lower ratios than Massachusetts, the ratios have risen steadily. In contrast, the ratio has shown an almost continuous decline here.

TABLE 8

Increase in Total Savings Deposits and Share Accounts in Selected Types of Financial Institutions in Mutual Savings Bank States, 1948-1960

(in millions of dollars)

State	Total	Mutual Sav. Banks	Sav. & Loan Associations	Commercial Banks
New York	18,690	11,096	3,361	4,233
Mass.	3,750	2,582	1,163	5
Conn.	1,818	1,216	462	240
Penn.	5,618	1,040	2,467	2,111
N. J.	3,999	822	2,049	1,128
Maryland	1,394	166	942	286
New Hamp.	463	269	112	82
Rhode Island	584	243	159	182
Maine	342	181	60	101
Vermont	164	34	27	103
All other States	13,771	296	8,861	4,614
All Mutual Sav. Bank States	50,693	17,945	19,663	13,085

Note: Data for Savings and Loan Associations are for all Members of the Federal Home Loan Bank System. Data for Commercial Banks are Time Deposits of Individuals, Partnerships, and Corporations at Insured Commercial Banks.

Source: Federal Deposit Insurance Corporation, Federal Home Bank Board, National Association of Mutual Savings Banks.

TABLE 9

Per Cent Time Deposits to Total Deposits, Insured Comm. Banks, Savings Banks States, Selected Years

	1943	1948	1953	1958
New York	8.3	13.4	15.4	21.7
Mass.	13.6	20.3	16.1	14.9
Conn.	21.6	28.8	23.0	25.0
Pa.	24.2	31.2	28.9	33.1
N. J.	37.2	45.9	41.2	43.1
N. H.	29.9	32.7	30.6	32.0
Md.	22.4	29.7	25.7	29.1
R. I.	26.3	35.7	37.1	41.6
Maine	39.5	44.9	41.5	43.2
Wash.	20.9	28.7	27.7	32.6
Minn.	22.8	31.0	30.3	34.7
Del.	12.9	16.0	19.1	21.8
Vt.	58.9	62.8	59.6	61.5
Ind.	22.4	28.8	28.1	31.6
Ore.	24.0	29.1	33.3	40.9
Ohio	27.8	37.4	33.5	35.9
Wisc.	33.4	44.2	39.3	41.1

Note: Data are derived from averages of beginning, middle, and end of year figures, except for 1943, derived from data as of June 30.

Source: American Bankers' Association, Statistics on the Savings Market, 1960 Edition, p. 24.

Later in this paper an attempt will be made to show that this situation is the result of a lack of competition between these institutions.

Factors Strengthening the Ability of
Massachusetts Savings Banks to
Compete Effectively

In this section, the main thesis of this paper is presented. Here the writer will endeavor to show why mutual savings banks in Massachusetts have enjoyed the relative success described in the preceding pages. That is, why mutual savings banks here have been more successful in their competition with other selected institutions than have been their counterparts in other states.

For the above purpose this section is divided into four main categories. First, mutual savings banks themselves are discussed in order to determine which of their own characteristics are responsible for their success. Second, savings and loan associations, which are the banks' most effective competitors, are studied. Third, the competition from commercial banks is considered. Finally, mention is made of the competition from life insurance companies.

Savings Banks

As indicated earlier, (Chapter 1) the Provident Institution for Savings, incorporated December 13, 1816, was the first such institution incorporated in the United States and the second to begin operation. Thus, we can see that savings banks here are a much more traditional savings medium than in many other states. This tradition and the resulting familiarity with and trust in these institutions by the people has, no doubt, had a favorable effect.

The large number of mutual savings banks here both in absolute terms and in terms of offices per 10,000 persons mentioned earlier as measures of convenience is another relevant factor. Massachusetts leads the nation in terms of total number of savings banks and total number of offices although New York is first in terms of number of banks having branches and total number of branches. This is shown in Table 10. As mentioned earlier, this is an important determinant of the ability of a type of financial institution for savings throughout a state. That is, if one type of financial institution is markedly more convenient than another as a result of having more offices to serve a given population and both institutions offer savings accounts, it is probably safe to assume that other facts being equal (or at least not extremely unequal) the more numerous institutions will attract the greatest part of total savings. In this connection it is interesting to note that of the states ranking one through seven in terms of number of savings banks, four of these states ranked first, second, third and fourth in terms of net deposit gains as a percentage of regular accounts in 1961.[23] Further, all of these four states also experienced record

23. Ibid.

net deposit inflows in 1961. They were the only states to set such marks.

In view of the fact that rates of return paid to savers are an important competitive factor, a consideration of these rates is necessary. A glance at the rates of interest paid by mutual savings banks in various states reveals some very interesting facts. In 1960, the average annual rate of interest paid on savings deposits at Massachusetts mutual savings banks was 3.43 percent. This rate was exceeded only by New Hampshire and New York. Also, if the first six mutual savings bank states in terms of rate of interest are studied, it becomes obvious that four of them (Connecticut, Massachusetts, New Hampshire and Rhode Island) are the same states which set deposit records in 1961.[24] The other two states, New York and Minnesota, have other problems which tend to cancel any advantages.

In New York, for example, mutual savings banks are hampered by generally more restrictive legislation and regulation than in other states in regard to branching privileges, services available and maximum size of accounts. Intense competition from local commercial banks and West Coast savings and loan associations which have intensely advertised in the New York press are also important.[25] Minnesota's position in the industry seems, at first glance, paradoxical. While

24. Ibid., p. 28 f.

25. Annual Report, p. 10.

TABLE 10

December 31, 1960

Number of Offices of Main Financial Institutions in Mutual Savings Bank States

State	Mutual Savings Banks				Commercial Banks				Savings and Loans		
	Banks	Bks. w/ Branches	Br.	Tot.Off.	Banks	Bks. w/ Branches	Bran.	Tot. Off.	Assn.	Assn.w/ Branch.	Tot. Offices
N. Y.	127	69	153	280	402	160	1,384	1,786	231	73	351
Mass.	185	67	122	307	171	91	374	545	207	12	221
Conn.	71	23	57	128	70	33	198	268	41	14	67
Pa.	7	4	49	56	703	204	793	1,495	831	78	932
N. J.	21	9	21	42	253	134	436	689	430	56	523
Md.	6	4	32	38	133	55	251	384	423	6	433
N. H.	33	2	2	35	74	4	4	78	26	--	26
R. I.	8	6	27	35	9	9	91	100	9	3	17
Maine	32	4	6	38	47	31	133	180	32	1	33
Wash.	4	2	9	13	87	25	291	378	66	24	117
Minn.	1	-	--	1	689	2	6	695	82	9	95
Del.	2	2	4	6	20	7	54	74	38	--	38
Vt.	6	1	1	7	56	14	33	89	8	--	8
Ind.	4	-	--	4	443	12	311	754	223	24	267
Oregon	1	-	--	1	51	20	195	246	27	6	51
Ohio	2	1	3	5	585	186	638	1,223	575	100	783
Wisc.	4	-	--	4	559	95	158	717	154	--	154

Source: Federal Deposit Insurance Corporation and United States Savings and Loan League.

ranking fourth in terms of rate of interest paid, the state ranks less than tenth in terms of net deposit gains. This seemingly unusual situation is clarified, however, when we note that Minnesota has only one savings bank. More important, in a context of competition, than the rates paid by savings banks in various states, is the differential which exists between the rate offered by the savings banks and that which is offered by their competitors in the same market. A consideration of these differentials in the various savings bank states is revealing. These figures are shown in Table 11.

When the differentials between rates paid by mutual savings banks and savings and loan associations in the various states are observed, it is found that although the average rate paid by the associations exceeds that paid by the mutual savings banks in Massachusetts, when positive and negative differences are considered, (that is, positive and negative amounts by which rates paid by savings banks exceed rates paid by the other institutions) the State ranks fourth among the seventeen states studied in terms of the narrowness of this differential.

When commercial bank interest rates are studied, it is found that mutual savings banks in Massachusetts enjoy a favorable position as compared with their counterparts in a still greater number of states. In this connection, the amount by which the average rate of interest paid by savings banks exceeds the average rate paid by commercial banks here is greater in only one state.

TABLE 11

Average Annual Rate of Interest Paid on Savings Deposits and Share Accounts and the Amount by which Rates Paid by Mutual Savings Banks Exceed Those Paid by Other Institutions at Main Financial Institutions by Mutual Savings Bank States

December 31, 1960

State	Mut.Sav. Banks	Sav.& Loan Associations	Sav. Bks. minus Sav. & Loan	Commer. Banks	Sav.Bks. minus Comm. Banks
New York	3.53	3.49	.04	2.57	.80
Mass.	3.43	3.45	-.02	2.20	1.23
Conn.	3.43	3.38	.05	2.59	.84
Penn.	3.37	3.69	-.32	2.60	.77
New Jersey	3.14	3.48	-.34	2.48	.66
New Hamp.	3.64	3.63	.01	3.03	.01
Maryland	3.06	3.84	-.78	2.58	.48
Rhode Is.	3.40	3.51	-.11	2.69	.71
Maine	3.32	3.75	-.43	2.62	.70
Wash.	3.39	3.92	-.53	2.70	.69
Minn.	3.42	3.86	-.44	2.63	.79
Delaware	3.34	3.48	-.14	1.92	1.42
Vermont	3.32	3.42	-.10	2.81	.51
Indiana	2.50	3.74	-1.24	2.47	.03
Oregon	3.39	3.89	-.50	2.69	.70
Ohio	2.97	3.76	-.70	2.45	.52
Wisc.	2.82	3.82	-1.0	2.46	.36
TOTALS	3.47	3.66		2.57	

Source: Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Association of Mutual Savings Banks.

Thus we see that in terms of interest rate competition, Massachusetts savings banks are in a stronger position relative to savings and loan associations and commercial banks than are their counterparts in the great majority of savings bank states.

As mentioned earlier, the rate of interest which an institution can offer its depositors is determined, to a great extent, by its own earnings. In this connection it is interesting to note that, in 1960, Massachusetts ranked fifth among the major savings bank states with regard to yield on major bank assets. It is also significant that, with the exception of New York, all states which excelled Massachusetts in this category also excelled in terms of percentage number of deposits gained in 1961.[26]

There seem to be three main reasons for the fairly high earnings of mutual savings banks in the State. First, although Massachusetts ranks far down on the list in terms of mortgage holdings as a percent of total assets, it is also true that in terms of percent of total mortgage money invested in conventional loans, the state ranks third.[27] This relatively heavy investment in conventional loans, although involving additional risk, also enables the banks to earn a somewhat higher return on their mortgage portfolios.

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26. Facts and Figures, p. 27 f.

27. Ibid., p. 19 f.

More specifically, whereas under federal law interest rates on government insured mortgages may not exceed 5¼ percent, under State law, rates on conventional mortgages may not exceed 6 percent.

In order to make the rate differential between insured and conventional loans more meaningful, an attempt was made to discover the "average" rate on conventional loans in order that a direct comparison might be made. Unfortunately, it was discovered that these rates are to such a great extent influenced by such factors as size of loan, amount of down payment, duration of loan, etc., that it is very difficult to make any generalization in this regard. Thus, the only statement which can be made with any degree of certainty is that, under certain conditions, mutual savings banks may earn a higher return on conventional than on insured loans. The fact that some advantage has been taken of the higher allowable rates on conventional loans has been substantiated by an official of the State savings bank community.[28]

Second, the average rate of return on security investments of Massachusetts savings banks was, at 3.56 percent in 1961, exceeded only by two states: Connecticut and New Hampshire.[29] A glance at the aggregate balance sheets of

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28. Interview with Mr. Richard Covell, Executive Assistant, Massachusetts Savings Bank Association, August 1963.

29. Facts and Figures, p. 27 c.

savings banks in the various states makes the reasons for this relatively high rate of return quite obvious.[30]

(1) The investment of mutual savings banks in this state in corporate stocks is exceeded only in New York State. Further, as a percentage of total assets, the Massachusetts banks' investment in corporate securities is much higher than in New York. It is, however, exceeded by some other states.

(2) Of their total investment in corporate stocks, the Massachusetts banks have the highest percentage holdings of common shares of any state. Although all states, with exception of New York, invest more heavily in common than in preferred, Massachusetts, with a ratio of common to preferred at 244.2 to .1, is easily the most one-sided in this regard. The rather large investment of mutual savings banks here in commercial bank stocks will be discussed later.

(3) In terms of dollar investment in nonresidential and commercial mortgages, the state is second only to New York. These relatively large mortgages are, of course, rather more lucrative investments than the residential type. The state also ranks high in terms of per cent of assets in nonresidential and commercial mortgages with 6.6 per cent. This figure is exceeded only in New York and New Hampshire and is above the all savings bank average of about 6.4 per cent.[31]

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30. Ibid., p. 6 f.

31. Ibid.

Savings Bank Life Insurance

Massachusetts, in 1907, was the first state to permit the sale of life insurance by mutual savings banks. Similar powers were granted to savings banks in New York in 1938 and Connecticut in 1941. At the present writing these are still the only states in which mutual savings banks are authorized to offer such protection.

As of December 31, 1961, Massachusetts savings banks were, very easily, the most important sellers of such protection in terms of life insurance in force (both ordinary and group), number of policies in force and purchases of savings bank life insurance. In fact, in 1961, Massachusetts savings banks had nearly three times as much life insurance in force, in terms of dollars, as did New York and about twenty times as much as Connecticut. In the same year, the state had, in terms of number of policies, more than twice the total for New York and Connecticut combined.[32]

Mr. Lintner has pointed out that there are several advantages to be gained by mutual savings banks offering savings bank life insurance. First, savings bank life insurance helps to attract new customers to the bank. In this connection, Mr. Lintner points out that, up to the time of his writing, studies by the Savings Bank Life Insurance council uniformly showed that about half of the purchasers of savings bank life insurance did not, at the time of purchase,

32. Ibid., p. 42 f.

TABLE 12

Number of Savings Bank Life Insurance Policies in Force

1959-1961

Year	Total	Mass	New York	Connecticut
1950	531,536	392,340	125,538	13,658
1951	561,298	410,734	135,274	15,290
1952	585,674	422,977	146,196	15,601
1953	644,228	469,341	157,026	17,861
1954	665,209	478,619	167,507	19,383
1955	686,756	488,931	176,889	20,936
1956	705,857	496,265	187,048	22,544
1957	729,322	509,133	195,652	24,537
1958	744,466	515,620	202,835	26,011
1959	762,511	525,420	209,978	27,113
1960	784,003	538,874	216,894	28,235
1961	803,483	550,411	223,704	29,368

Note: Data include both ordinary and group policies. Data are as of October 31 for Massachusetts and December 31 for New York and Connecticut.

Source: Commissioner of Banks, Commonwealth of Mass., Savings Bank Life Insurance Council, Mass., Savings Bank Life Insurance Fund of Conn., and Savings Bank Life Insurance Fund of New York.

TABLE 13

Savings Bank Life Insurance in Force, 1950-1961

(in millions of dollars)

Year	Total	Massachusetts Total	Ord.	Group	New York Total	Ord.	Group	Connecticut Total	Ord.	Group
1950	579.8	392.6	360.7	31.9	172.9	158.9	14.0	14.4	12.5	1.9
1951	624.9	418.3	381.2	37.1	189.5	173.8	15.6	17.1	14.2	2.9
1952	684.6	448.7	410.2	38.5	215.3	192.1	23.2	20.7	16.1	4.6
1953	741.9	481.6	440.4	41.1	237.5	210.5	27.0	22.8	18.1	4.7
1954	798.4	512.5	469.3	43.2	260.1	228.1	32.0	25.8	20.5	5.3
1955	859.8	543.8	496.7	47.1	284.2	244.6	39.6	31.7	22.7	9.0
1956	921.3	574.3	525.9	48.4	310.9	264.1	46.8	36.1	25.1	10.9
1957	989.9	616.7	563.8	52.9	329.8	282.5	47.3	43.4	28.5	14.5
1958	1,062.1	650.4	596.6	53.8	358.4	307.8	50.6	53.3	31.8	21.5
1959	1,114.9		687.9	633.4	54.5	398.0	347.9	50.0	34.6	23.4
1960	1,248.7	738.5	669.8	68.7	448.6	391.9	56.7	61.6	37.9	23.7
1961	1,353.5	788.6	710.9	77.7	498.4	439.8	58.6	66.5	41.5	25.0

Note: Data are as of October 31 for Massachusetts and December 31 for New York and Connecticut.

Source: Commissioner of Banks, Commonwealth of Massachusetts, Savings Bank Life Insurance Council, Mass., Savings Bank Life Insurance Fund of Conn., and Savings Bank Life Insurance Fund, New York.

have a savings account at the banks. It is probably reasonable to assume that a fairly substantial proportion of these insured would open accounts at the same bank.

Second, the funds attracted by the sale of savings bank life insurance is of a particularly stable type. Savings bank life insurance policies have a much longer life than savings bank accounts. This is a very advantageous feature from the banks' point of view, because these funds (premiums) are managed by the individual underwriting banks and are subject to the same investment laws which govern the use of deposit money. Thus, they represent a substantial addition to the earning assets of the banks. According to Mr. Lintner, the average life expectancy of a savings bank life insurance policy is about twice that of a regular savings bank deposit account. To support this point, he cites figures at five year intervals for a twenty-five year period, showing turnover rates for regular savings accounts and ordinary savings bank life insurance policies. These figures show that the turnover rate on regular savings accounts exceeds that on the insurance policies from slightly more than two to a little less than five times.

Third, the new customers which are usually gained through the sale of low cost savings bank life insurance are those whom savings bankers claim that they are most interested in serving. That is, wage earners, clerical workers, farmers and homemakers.[33]

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33. Lintner, pp. 199-200.

Savings and Loan Associations

As Table 16 shows, savings and loan associations with total deposits of nearly one-third those of mutual savings banks and, more important, a growth rate of more than three times that of savings banks are the savings banks most important competitors in Massachusetts in terms of their ability to increase their share of the state's total savings.

There are, however, reasons for limited optimism among Massachusetts savings bankers in this regard if they will consider their position relative to these institutions as compared with their counterparts in other states. This point was made in the last chapter.

There seem to be several reasons for the relative success of Massachusetts banks in their competition with savings and loan associations.

First, as indicated in Table 9, there are relatively few savings and loan associations in this State. Actually, as of December 31, 1960, Massachusetts ranked seventh among the then seventeen savings bank states in terms of total number of associations, seventh in terms of associations having branches, ninth in terms of number of branches, and seventh with regard to total number of offices. Further, Massachusetts is one of only five states where the number of mutual savings bank offices exceeds the number of association offices. In addition, the number of savings bank offices exceeds the number of association offices by a much wider

TABLE 14

Savings at Massachusetts Financial Institutions

1950-1961

(in millions of dollars)

Year End	Mutual Sav. Banks	Commercial Banks[1]	Savings and Loan Associations[2]	Reserves of Life Insurance Companies[3]
1950	3,311	730	807	N.A.
1951	3,412	723	870	N.A.
1952	3,614	714	960	N.A.
1953	3,860	688	1,080	N.A.
1954	4,159	716	1,208	2,340
1955	4,482	710	1,328	2,442
1956	4,766	681	1,430	2,552
1957	4,972	696	1,533	2,783
1958	5,264	735	1,657	2,826
1959	5,519	743	1,764	2,933
1960	5,793	801	1,869	3,063
1961	6,204	959	2,008	N.A.
% Inc.	87%	31%	273%	

Notes: 1. Total Time Deposits of All Massachusetts Commercial Banks
2. Figures show combined totals for Federal Savings and Loan Associations and State-Chartered Co-operative Banks.
3. Estimated from Life Insurance in Force in Massachusetts as a Per Cent of National Totals.

Source: Federal Reserve Bulletin, August, 1959, and Updated, Massachusetts Co-operative Central Bank Federal Savings League of New England, Inc.

margin than in any other state. A more persuasive argument might be inferred from Table 4. Here we see that in terms of savings and loan association offices per 10,000 persons, Massachusetts ranks fairly high (seventh) among the seventeen savings bank states listed. Closer study shows, however, that Massachusetts is the only one of the seven states in which the number of mutual savings bank offices exceeds the number of savings and loan association offices per 10,000 persons.

Also (referring again to Table 10) when the ratios of mutual savings bank offices to savings and loan association offices is computed, it is found that only two states, Connecticut and Rhode Island, have higher ratios.

Second, a study of the rates of interest offered by savings and loan associations in various states is very revealing. Here we see that, in 1960, the Massachusetts institutions offered the third lowest return among all the mutual savings bank states. Only Vermont paid less.[34] This seems especially significant when we remember that savings banks here, with an average rate of 3.48 percent, rank third among all savings bank states in terms of return offered.

In the above connection, it is significant that Massachusetts ranks third among all savings bank states in terms of ratio of capital or general reserve accounts to savings shares at savings and loan associations.[35] In this

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34. <u>Facts and Figures</u>, p. 28 f.

35. <u>Ibid</u>., p. 17 f.

category, the state is exceeded only by Maine and Vermont, the states which experienced the smallest share account gains in the period 1948-1960.

These observations seem to indicate that in Massachusetts, savings and loan associations, which are traditionally interested in residential mortgages as an outlet for their funds, are having some difficulty competing for investments with long established and numerous mutual savings banks.

As indicated earlier, the major topic upon which attention is focused in this paper is the competition for savings (or more accurately, its apparent lack), between savings banks and commercial banks in Massachusetts. In investigating this situation, the writer has, in the following section, concentrated his attention on commercial and savings banks in the Boston area for three reasons: First, competition among financial institutions is usually local in character; second, most of the State's largest commercial banks and savings banks are in the city; three, the banks in this area, generally being larger than those in other sections of the state, tend, more frequently, to make their statistical data available in the published sources.

The Worcester County National Bank, the State's fifth largest commercial bank, is included in order to show that the situation which will be discussed in the next section, is not peculiar to eastern Massachusetts alone.

Commercial Banks

As mentioned in the previous chapter, commercial banks in Massachusetts do not appear to have competed as actively with mutual savings banks as they have in other states. The reasons for this relative lack of interest among commercial banks here in savings represent a very important part of any discussion of the competitive powers of mutual savings banks in the State. For this reason the present section is subdivided. It is hoped that this subdivision will make for easier reading and, perhaps, more detailed coverage of each topic.

Failure of Many Massachusetts Commercial Banks to Raise Interest Rates on Time Deposits as Allowed Under Regulation Q as Amended

On December 31, 1961, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation announced that insured commercial banks would be allowed to pay up to 4 percent annually on savings and other time deposits for one full year or more.

On commenting on the variations in district rate patterns in early 1962, the Federal Reserve Bank of Boston points out that:

> "The local rate patterns vary widely, with over three-fourths of commercial banks in Vermont paying over 3 percent while fewer than 1 in 10 in Massachusetts does so."

Later, in this same publication, it is stated that:

> "Massachusetts has the lowest proportion of commercial banks paying above 3 percent. Savings banks dominate the savings field with the ratio of savings bank deposits to commercial bank time deposits being 6 to 1. Even many of the smaller towns have a savings bank. Commercial banks have generally not competed actively for time deposits in the past, but some change may be occurring now."[36]

In this same connection, Mr. Edward A. Counihan III, Commissioner of Banks of the Commonwealth of Massachusetts, said recently in an address to the Conference of Savings Bank Women of Massachusetts that:

> "Our (Massachusetts) commercial banks use restraint in increasing their dividend rates, and as a result only an insubstantial amount of the savings flow was diverted into commercial banks. Much of this restraint was inspired by the knowledge that increased interest payments would decrease earnings, and some of the restraint was due to the ownership by savings banks of much of the stock of the commercial banks; but whatever the reason, it is true that total deposits of savings banks are on the increase, and that, for the present at least, the impact of Federal Reserve four percent regulation has not been as serious as was anticipated.[37]

This hesitancy of Massachusetts commercial banks to raise interest rates on their time deposits in order to compete with savings institutions is not new. When Regulation Q was previously amended to permit such increases, the response of Massachusetts Commercial banks was similar. In discussing a similar amendment to Regulation Q effective

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36. Federal Reserve Bank of Boston, New England Business Review, March, 1962.

37. Massachusetts Savings Bank Association, The Savings Banker, May 1962.

January 1, 1957, which increased permissive rates of interest from 2½ to 3 percent on time deposits, Mr. Weston L. Bonney said that commercial bankers in Boston seemed "uninterested at the moment" in increasing their rates.[38]

In an effort to discover the true reasons for the apparent and nontypical lack of interest in Massachusetts commercial bankers in time deposits, available statistical data has been studied and several executives in the State banking community have been interviewed.

First, the views expressed by the bankers themselves will be presented. Then inferences drawn from the statistical data will be discussed under the topic headings.

Savings bankers, especially, and commercial bankers to a lesser extent, are generally hesitant to discuss the charge of lack of competition between their institutions. When asked why this situation exists, they almost always point out their traditional functions while almost comically trying to avoid a discussion of possibly deeper and more objective reasons. For example, most savings bankers questioned, immediately pointed out that theirs are actually benevolent institutions whose main objective is to provide safekeeping for the funds of lower and middle income groups while offering a rate of return consistent with safety and liquidity. Commercial bankers, on the other hand, argue that their main

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38. Weston L. Bonney, Competition for Savings by Commercial Banks in Boston. Thesis: Rutgers University, 1958, p. 70.

and traditional function is to provide short term business and personal credit. For these reasons members of each group seem almost puzzled when asked about the seeming lack of competition for savings.

Now that the views of the bankers themselves have been mentioned a presentation of some relevant statistical and other data will be made. These, it is hoped, will shed more light on the situation and make possible the inference that lack of competition for savings deposits by commercial banks is, at least largely, the result of the influence exerted by the savings banks in their policy-making bodies.

Commercial Bank Stockholding by Mutual Savings Banks

Under the General Laws of the Commonwealth of Massachusetts, mutual savings banks and state-chartered trust companies are allowed to invest in the stock of either trust companies or national banks. Whereas limitations are placed on the total amount of any one institution's assets which may be invested in the stock of any one bank, the result has been that sizeable portions of the stock of some of the commercial banks in Massachusetts are owned by the mutual savings banks.[39] In a survey of savings accounts in Massachusetts conducted by the Federal Reserve in 1957, 78.5 percent of the responding commercial banks reported a portion

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39. Bonney, p. 71.

of their stock owned by savings banks. The average portion of stock owned was 16 percent. Analysis of the data disclosed a negative correlation between stock ownership and the relative importance of savings to the commercial bank; i.e., savings deposits represent a smaller portion of total deposits as the percent of commercial bank stock owned by the savings banks increases.[40] (See footnote.)

Further, Mr. Bonney quotes an anonymous Massachusetts Commercial Bank President who said:

> ".... my guess is that much of the difficulty arises from the fact that the savings banks of the Commonwealth are such large stockholders in a great many of the Massachusetts banks, including this one, that we are not free agents in many ways in our solicitation of savings deposits."[41]

A recent study by the Select Committee on Small Business which looked into stockholder and loan links of 200 largest member banks, reveals additional information in this regard. Emphasis will here be placed on the data provided by the report which deals with Massachusetts' five largest member banks. The Committee's findings are condensed in Tables 15, 16, 17, 18 and 19.

Here we see that in the case of three of these banks, National Shawmut, New England Merchants and State Street Bank and Trust, respectively, nineteen, sixteen and twenty of the

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40. This report was circulated to member banks only. Classified as confidential by the Federal Reserve Bank of Boston. Cited by Bonney, who is an employee of Bank.

41. Bonney, p. 72.

TABLE 15

Twenty Largest Shareholders

National Shawmut Bank, Boston, Mass.

(Total Shares outstanding: 800,000. Total Assets: $507,046,900.)

Rank of Stockholder	Stockholder of Record	Number of Shares	Percent of Shares Outstanding
	A. Banks (Through Nominees or Outright)		
1	Home Savings Bank	12,200	1.525
2	Boston Five Cents Savings Bank	12,100	1.513
3	Essex Savings Bank	7,500	.938
4	Malden Savings Bank	7,255	.907
5	Union Savings Bank of Boston	6,700	.838
6	Cambridge Savings Bank	5,000	.625
7	East Boston Svgs. Bank	5,000	.625
8	Warren Inst. for Svgs.	5,000	.625
9	New Bedford Five Cents Savings Bank	4,900	.613
10	Springfield Inst. for Savings	4,833	.604
11	Charlestown Svgs. Bank	4,800	.600
12	Berkshire County Svgs. Bank	4,630	.579
13	Citizens Savings Bank	4,600	.575
15	Natick Five Cents Svgs. Bank	4,565	.571
16	Warren Five Cents Savings Bank	4,500	.563
17	Worcester North Svgs. Institution	4,500	.563
18	Lynn Inst. for Svgs.	4,400	.550
19	Amoskeag Savings Bank	4,115	.514
20	Eliot Savings Bank	4,000	.500
	Total	110,598	13.828
	B. Individuals Personal and Family Holding Companies, Trusts, and Estates		
14	Bucklin, Walter S.	4,578	.572
	GRAND TOTAL	115,176	14.400

Source: Select Committee on Small Business, U. S. House of Representatives, Chain Banking, January 3, 1963.

TABLE 16

Twenty Largest Shareholders

First National Bank, Boston, Mass.

(Total shares outstanding:4,000,000. Total assets: $1,833,941,100)

Rank of Stockholder	Stockholder of record	Number of Shares	Percent of Shares Outstanding
	A. Banks (Through Nominees or Outright)		
2	Sigler & Co.	84,282	2.107
4	Steere & Co.	42,310	1.058
5	Provident Inst. for Svgs.	42,143	1.054
6	Bost & Co.	34,533	.863
7	Shaw & Co.	31,999	.800
8	Salkeld & Co.	30,286	.757
9	Rowe & Co.	29,090	.727
10	Harvard & Co.	28,791	.720
11	Ham & Co.	26,569	.664
12	Anderson & Co.	23,388	.585
13	Wonham, Albert & Co.	21,066	.527
15	Cudd & Co.	19,429	.486
16	Bowen David & Co.	19,405	.485
17	Boston Five Cents Svgs.Bk.	19,038	.476
18	Springfield Inst.for Svgs.	18,767	.469
	Total	471,086	11.778
	C. Investment Trusts and Investment Companies		
1	Mass. Investors Trust	104,900	2.623
20	Madison Fund, Inc.	16,846	.421
	Total	121,746	3.044
	D. Insurance Companies		
3	Travelers Insurance Co.	46,143	1.154
10	Great American Ins. Co.	18,459	.461
	Total	64,602	1.615
	G. Other Corporations, Nonfinancial		
14	Freya Fanning & Co.	20,713	.518
	GRAND TOTAL	678,147	16.955

Source: Select Committee on Small Business, U. S. House of Representatives, Chain Banking, January 3, 1963.

TABLE 17

Twenty Largest Shareholders

New England Merchants National Bank, Boston, Mass.

(Total shares outstanding: 870,000. Total Assets: $360,415,800)

Rank of Stockholder	Stockholder of record	Number of Shares	Percent of Shares Outstanding
	A. Banks (Through Nominees or Outright)		
2	Boston Five Cents Svgs. Bk.	26,614	3.059
4	Provident Inst. for Savings	14,821	1.704
5	Salem Savings Bank	12,937	1.487
6	New Bedford Inst. for Svgs.	12,151	1.397
7	Lynn Institution for Svgs.	12,120	1.393
8	New Bedford Five Cents Savings Bank	9,757	1.121
9	Suffolk Franklin Svgs. Bank	9,400	1.080
10	Charlestown Savings Bank	9,180	1.055
11	Malden Savings Bank	8,527	..980
12	Springfield Inst. for Svgs.	7,240	.882
14	Warren Institution for Svgs.	7,000	.805
15	Cambridgeport Savings Bank	6,256	.719
17	Institution for Savings	6,055	.696
18	Arlington Five Cents Svgs. Bank	5,987	.688
19	The Wareham Savings Bank	5,900	.678
20	Dorchester Savings Bank	5,841	.671
	Total	159,786	18.365
	C. Investment Trusts and Investment Companies		
3	Madison Fund, Inc.	22,440	2.579
13	Rogers & Co.	7,160	.823
	H. Individuals, Personal and Family Holding Companies, Trusts and Estates		
1	Mee, Timothy J.	40,673	4.675
16	Moir, John A	6,250	.718
	Total	46,923	5.393
	GRAND TOTAL	236,309	27.160

Source: Select Committee on Small Business, U. S. House of Representatives, Chain Banking, January 3, 1963.

TABLE 18

Twenty Largest Shareholders

State Street Bank & Trust Co., Boston, Mass.

(Total shares outstanding: 1,912,500. Total assets: $606,727,400.

Rank of Stockholder	Stockholder of record	Number of Shares	Percentage of Shares Outstanding
	A. Banks (Through Nominees or Outright)		
1	Provident Inst. for Savings	100,103	5.234
2	Boston Five Cents Svgs. Bank	63,524	3.322
3	New Bedford Inst. for Savings	44,458	2.325
4	Suffolk Franklin Savings Bank	32,610	1.705
5	Salem Savings Bank	31,070	1.625
6	Home Savings Bank	30,000	1.569
7	Warren Institution for Savings	26,868	1.405
8	Charlestown Savings Bank	23,523	1.230
9	Salem Five Cents Savings Bank	20,000	1.046
10	Inst. for Svgs. in Newburyport	19,914	1.041
11	Peoples Savings Bank	18,000	.941
12	Springfield Inst. for Savings	17,824	.932
13	Beverly Savings Bank	15,103	.790
14	Natick Five Cents Svgs. Bank	14,926	.780
15	East Cambridge Savings Bank	14,702	.769
16	East Boston Savings Bank	14,002	.732
17	Essex Savings Bank	13,587	.710
18	Lynn Inst. for Savings	13,537	.708
19	Citizens Savings Bank	13,036	.682
20	New Bedford Five Cents Svgs. Bank	12,896	.674
	Total	539,683	28.220

Source: Select Committee on Small Business, U. S. House of Representatives, Chain Banking, January 3, 1963.

TABLE 19

Worcester County National Bank, Worcester, Mass.

(Total shares outstanding: 393,500. Total assets: $175,824,700)

Rank of Stockholder	Stockholder of record	Number of Shares	Percent of Shares Outstanding
	A. Banks (Through Nominees or Outright)		
2	Worcester County Inst. for Svgs.	16,145	4.103
5	Peoples Savings Bank	10,000	2.541
7	Worcester Five Cents Svgs. Bank	8,925	2.268
8	Springfield Inst. for Savings	7,451	1.894
10	Worcester Mechanics Svgs. Bank	7,000	1.779
13	Worcester North Savings Inst.	5,000	1.271
15	Holyoke Savings Bank	4,362	1.109
18	Par & Co.	3,712	.943
20	Morrill & Co.	3,161	.803
	Total	65,756	16.711
	D. Insurance Companies		
3	Mass. Protective Association	12,500	3.177
4	Paul Revere Life Ins. Co.	12,500	3.177
6	State Mutual Life Assurance Co. of America	10,000	2.541
	Total	35,000	8.895
	G. Other Corporations, Non-financial		
9	Wyman-Gordon Co.	7,232	1.838
17	Worcester Telegram Publishing Co., Inc.	3,950	1.004
	Total	11,182	2.842
	H. Individuals, Personal and Family Holding Companies, Trusts and Estates		
1	Mee, Timothy J.	21,863	5.556
11	Stoddard, Harry G.	7,000	1.779
12	Rice, Albert W.	5,363	1.363
16	Reed, Jacob	4,000	1.017
	Total	38,226	9.715
	I. All Others		
14	Worcester Art Museum	4,500	1.144
19	Memorial Hospital	3,575	.909
	Total	8,075	2.053
	GRAND TOTAL	158,239	40.216

Source: Select Committee on Small Business, U. S. House of Representatives, Chain Banking, January 3, 1963.

twenty largest stockholders are mutual savings banks. These savings banks own 13.8, 18.4 and 28.2 percent respectively, of the outstanding shares of these banks.

At first glance, this trend might seem to be broken in the case of the First National Bank of Boston; the largest of the four Boston banks. Here we see that only three savings banks rank among the twenty largest stockholders. However, closer study shows that five other stockholders ranking among the twenty largest holders are nominees (agents) of Massachusetts commercial banks. Two of these commercial banks (New England Merchants National Bank and State Street Bank and Trust Company) will later be shown to have close ties, through their boards of directors with mutual savings banks. The three remaining banks have not been studied in this regard.[42] Thus, while the number of savings banks ranking among the twenty largest shareholders is smaller at this bank than at the other three Boston commercial banks, their influence still seems to merit consideration.

It is important to point out that, in view of the apparent ability of the savings banks to determine who will hold the highest management positions in these commercial banks, the rank of these savings banks among the twenty largest stockholders probably greatly understates their total influence. The validity of this conclusion seems

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42. U. S., Congress, House, Select Committee on Small Business, Chain Banking: Stock Holder and Loan Links of 200 Largest Member Banks, 87th Congress, 1963, pp. 100-103.

more probable when we consider the percentage of total shares outstanding held by the twenty largest shareholders. For example: these represent 16.9 percent at the First National Bank of Boston, 14.4 percent at the National Shawmut Bank of Boston, 27.2 at the New England Merchants National Bank and 28.2 at the State Street Bank and Trust Company.[43]

Further, these savings banks and nominees are, for the most part, located in the Boston area and represent a rather small percentage of the total number of savings banks in the state, most of which, it should be safe to assume, invest some of their funds in commercial bank stocks.

Interlocking Directorates

The previously mentioned interviews with bankers have shown that in many of the commercial banks in the State, there are directors who are also trustees of competing mutual savings banks.

In order to learn more about the extent of this relationship, the writer obtained the names of the directors of the city's four largest member banks mentioned earlier. These individuals were then investigated to determine how many were also savings bankers. The results of this study are shown in Table 20.

A glance at this table shows that a rather substantial percentage of the commercial bank directors are also savings banks trustees. Specifically, savings bankers comprise 38

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43. Ibid.

TABLE 20

Directors of Boston's Major Commercial Banks

Showing Savings Bank Affiliations

First National Bank of Boston

C. F. Adams	R. C. Sprague	I. L. Moore
*L. D. Brace, Chairman	*R. W. Stoddard	*A. O'Keefe
G. R. Brown	T. E. Sunderland	E. W. Schumacher
*T. D. Cabot	T. H. West	S. Semenko
H. J. Caldwell	*R. P. Tibolt	G. K. Simonds, Jr.
H. M. Carter	G. P. Gardner	J. E. Toulmin
*R. C. Damon, President	B. Gross	S. Weeks
*B. K. Elliot	S. A. Groves	*E. N. White
*L. Farwell	E. S. Miller	

State Street Bank and Trust Company

C. B. Barnes	*E. B. Hanify	*W. B. Snow
*E. L. Bigelow, Chairman	C. E. Hodges	*C. H. Wardwell
H. M. Bliss	H. P. Hood	M. Williams
A. C. Brett	*C. M. Hutchins	J. J. Wilson
*E. W. Brewster	*W. D. Ireland	*S. H. Wolcott, Jr.
*W. H. Claflin	J. McCormack	*A. S. Woodworth
*F. M. Forbes, Jr.	*R. M. Proctor	*T. P. Beal, Chairman Advisory Committee
J. M. Gerrity	*H. S. P. Rowe	
*H. F. Hagemann, President	R. Saltonstall	

Table 20 (continued)

National Shawmut Bank of Boston

C. F. Avila	J. L. Hobson	*H. J. Nichols
F. S. Blackall, Jr.	R. M. Jenney	*H. Schermerhorn, Chairman
*J. H. Bolton	R. V. Jones	*C. M. Spencer
C. C. Carey	*N. W. Kenney	*C. H. Stocker, Jr.
A. T. Collier	Caleb Loring, Jr.	B. A. Trustman
E. G. Dodge	H. T. Marshall	A. O. Wellman
G. F. Doriot	*L. H. Martin, President	R. B. Young
H. S. Gensen	*T. J. McHugh	A. S. Knowles

New England Merchants National Bank

J. D. Anthony	L. H. Hamel	*R. M. Morgan
F. G. Bemis	*M. L. Harris	*R. M. Nichols
*H. H. Bundy	*W. Howland	*W. L. Pierce
*C. R. Burgin, Chairman	B. J. Jaques	G. M. Roddy
*L. W. Cabot	H. C. Jones	*H. L. Shattuck
E. B. Chapin	P. Ketchum	W. K. Shaw, Jr.
*R. P. Chapman, President	*A. P. Loring	M. C. Stewart
J. H. Gardiner	K. W. Marriner	
J. F. Gerrity	*J. B. McIntosh	

*Asterisks indicate Directors who are also savings bank trustees.

Sources: Moody's Bank and Finance Manual, 1962; Poor's Register of Corporations, Directors, and Executives, 1962.

Note: These Banks were selected because they are the city's only commercial banks ranking among the Federal Reserve System's 200 largest members recently studied by the Select Committee on Small Business.

percent of the Board of Directors at the First National Bank of Boston, 63 percent at the State Street Bank and Trust Company, 33 percent at the National Shawmut Bank of Boston, 48 percent at the New England Merchants National Bank and 45 percent at the Worcester County National Bank. It is also noted that at all four commercial banks studied, both the President and the Chairman of the Board are also savings bank trustees.

As implied earlier, this situation is not peculiar to the Boston area. This is shown by a study of the board of directors of the Worcester County National Bank, the State's largest commercial bank outside of the Boston area.

Seven mutual savings banks rank among this bank's twenty largest shareholders. These seven banks own slightly less than 15 percent of the bank's total shares outstanding. It was also found that savings banks are strongly represented on this bank's board of directors. This is shown in Table 21.

If the policy determining board was representatives of competing banking institutions as members, it is doubtful that competition with those other institutions can be effective. Thus the relative success of mutual savings banks in Massachusetts is due only partly to their own competitive power. The lack of serious competition from commercial banks is another important factor.

The effects which these interlocking arrangements have on competition for savings may be indicated by the

TABLE 21

Worcester County National Bank Directors

*Edward L. Clifford, President	Harry R. McIntosh
Philip C. Beale	Timothy J. Mee
*Alexander H. Bullock	Paul B. Morgan
James A. Crotty	William H. Parks
*Warren G. Davis	H. Ladd Plumley
*Rufus S. Frost	*Albert W. Rice
*C. Lane Goss	*William H. Sawyer
Frank C. Harrington	C. Weldon Schumacher
Robert D. Harrington	Harry G. Stoddard
*Norman Harrower	*Robert W. Stoddard
Richard A. Heald	*John S. Tomajan
Frederick C. Howe	*Edward C. Williams

Source: Poor's Register of Corporations, Directors and Executives, 1963.

Note: Because not all of the Directors are covered in the Personal Background section of this reference work, the number of savings bank affiliations may be understated.

differential between interest rates paid on savings by commercial and savings banks. Table 11 which was referred to earlier shows these differentials.

In order to show the relationship which appears to exist between interest rate competition and these interlocking arrangements, the writer decided to compare the Massachusetts situation with those in the two most important savings bank states outside of New England in terms of total deposits -- New York and Pennsylvania.

Here we see that, in terms of interest rate differentials, competition between commercial and savings banks in these states is much more vigorous than in Massachusetts. For example, the differential here exceeds those in the other two states by about 50 percent. Further investigation revealed what the writer considers to be the most probable cause of this relatively competitive attitude of commercial bankers in these two states. In its recently published study, Mr. Patman's committee shows that not a single savings bank ranks among the 20 largest stockholders of New York State's 28 largest member banks or Pennsylvania's 6 largest banks.[44]

In New York State, the reason for this is obvious. In that state commercial bank stock is not approved as a legal investment for savings banks.[45] In Pennsylvania the

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44. Ibid., pp. 119-146; 152-158.

45. Mutual Savings Banking: Basic Characteristics and Role in the National Economy, p. iv - 3 a.

reason is less obvious. Although legally approved as an investment, savings banks in that state appear to have voluntarily limited their investment in these securities rather sharply.[46]

Whatever the reasons may be, the point to be stressed here is that savings banks in New York and Pennsylvania are not significantly large shareholders in commercial banks in their states.

On this basis it is probably safe to assume that savings banks are not nearly as well represented on the boards of directors of these competing institutions. Consequently, competition, in this instance shown by interest rate differentials, is considerably more vigorous in these states than in Massachusetts.

As mentioned earlier, Delaware is the only state in which the interest rate differential exceeds that in Massachusetts. The most obvious reason for this lack of competition seems to be that the two savings banks and their six offices in this state do not pose a serious competitive threat to the commercial banks.

Deposit Relationship

The existence of rather large savings bank deposits at commercial banks in the State is, perhaps, also an important factor in limiting the desire of the commercial banks

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46. Select Committee on Small Business, pp. 152-158.

to compete. This point was made by an officer of one of New England's largest banks. The mutual savings banks, co-operative banks and Federal savings and loan associations all carry working balances with the commercial banks. One reason for this is that because these institutions do not generally handle demand deposits, when they pay dividends to their depositors, the checks are drawn on commercial banks. Some of these deposits represent sizeable amounts.

Several of the banks responding to questionnaires sent to them during the Federal Reserve Bank of Boston Survey mentioned on page indicated the valued deposits of the savings banks as the primary reason why they did not actively solicit deposits. They did not wish to compete with their best customers.

In all fairness to the commercial banking community, it must be admitted that not all of their reasons for not actively competing with savings banks are of the "undercover" or clandestine variety. Neither are they based entirely on tradition. When asked why commercial banks here do not make a greater effort to attract savings, one commercial banker claimed that it would be unprofitable to do so. He pointed to several reasons for this. First, commercial banks must carry 5 percent reserves against all time deposits. This means that only 95 percent of these funds are available for investment. This is contrasted with 100 percent less prudent reserves, in the case of mutual savings banks. Second, whereas mutual savings banks are only obligated to pay dividends to their depositors, commercial banks must also provide earnings for their stockholders. This argument has also been put forward by Mr. Gaylord A. Freeman, Jr., General Vice President of the First National Bank of Chicago. In 1959, Mr. Freeman wrote:

> "While the amount of dividends which we commercial bankers pay to our stockholders is small (only 0.336 percent in 1957) if it were paid to depositors (as a business expense) it would be before taxes (at an average rate of 40 percent) and hence would amount to approximately one half of one percent of total deposits. Thus, in order to have the privilege of paying dividends to our depositors, we suffer this competitive disadvantage on the interest rate we can afford to pay on savings of one-half of one percent of deposits."[47]

Although relevant, this argument does not, of course, explain the disinterest of Massachusetts commercial banks relative to commercial banks in other states which are subject to the same laws and regulations governing taxation and reserves. A third and perhaps stronger argument is that investments, including real estate mortgages, here in the northeast section of the nation, are not of sufficiently high yield to provide the reasonably higher earnings that would be necessary. On the other hand, it was pointed out that in California where mortgage yields are higher, commercial banks do strive to attract savings and also provide about 25 percent of all residential mortgage money. In Massachusetts, commercial

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47. Gaylord Freeman, Mutual Competition (First National Bank of Chicago, 1959), p. 66.

banks have not entered the mortgage market to a significant extent.

There is another factor which seems to indicate co-operation between mutual savings banks and commercial banks here. Although savings banks in Massachusetts are allowed to make personal loans of up to $1,500, few banks do so. As of this writing, for example, New England's largest mutual savings bank was not making such loans.

As suggested earlier, there may be traditional and, in some cases, sound financial arguments as to why commercial banks in Massachusetts do not compete for savings. Some of these may be so-called "good" reasons. However, it is the writer's contention that the major reason is the relationship between these institutions which was described earlier. That is, especially, the influence wielded by savings bankers in the commercial banking community through their representation on the boards of directors of these institutions which is at least largely, a result of their rather substantial stock-holdings.

Life Insurance Companies

As mentioned earlier, life insurance companies, although they do not accept deposits as such, do compete indirectly with thrift institutions for savers' funds. The extra premiums paid by level premium policyholders, for example, are invested by the companies which guarantee the policy holders a rate of return of from 2 to 3 percent. Although, probably, most insurance buyers are buying protection, some do buy insurance and annuities as investments. Those in the insurance business have argued that insurance is a good investment and they emphasize its record of security, liquidity and stability of income during severe depression. Other advantages include favorable tax treatment. Small savers may leave the so-called "dividends" on mutual policies on deposit with the company where the yield may exceed that paid by savings banks although the money is available almost on demand. The net rate of interest earned by life companies in 1959 was 3.75 percent. Annuities represent the pure saving and investment advantages of life insurance companies.[48]

Study of life insurance company statistics during the period of 1954-1960 reveals some rather interesting points. In each of these years, life insurance in force and policy reserves increased nationally. However, savings in life insurance (policy reserves) as a percent of assets declined every year from a high of 76.0 percent in 1954 to a low of 70.7 percent in 1960. It can also be noted that the life insurance in force in Massachusetts as a percentage of the national total declined steadily from 3.34 percent in 1954 to 3.11 percent in 1960. From this it is probably legitimate to infer that Massachusetts reserves have declined as a

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48. Leland J. Gordon, Economics for Consumers (New York: The American Book Company, 1961), p. 415.

percentage of total reserves.[49]

In this same period reserves of life insurance companies in Massachusetts rose by 723 million dollars or 31 percent while savings bank deposits rose by 39 percent, commercial bank deposits by 12 percent and savings and loan share accounts by about 55 percent. This was shown in Table 14. Thus, it can be seen that, in terms of "deposit" growth, life insurance companies are second only to savings and loan associations among the competitors of mutual savings banks considered here.

The writer realizes that this study should be made to include the growth of savings bank life insurance reserves in Massachusetts. However, it is felt that such an investigation is beyond the scope of this paper.

It was pointed out earlier that mortgages represent, traditionally, a very large percent of the total assets of mutual savings banks. It is upon these relatively high yield investments that the banks primarily depend to meet operating expenses and pay competitive rates of return. For these reasons, Massachusetts savings bankers have reason to be pleased at the hesitancy of life insurance companies to enter the Massachusetts mortgage market on a large scale. As compared with many other states, life insurance companies have been rather inactive here in this respect. Interviews with savings bankers have confirmed these findings.

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49. Institute of Life Insurance, Life Insurance Fact Book, 1961.

In every case, the savings bankers pointed to the relatively low rates of return on mortgages here as compared with other more rapidly growing areas. The life insurance companies, they say, as a result of their nationwide operations, can buy and sell mortgages in different areas in order to take advantage of higher yields elsewhere. It is for this reason, they claim, that these companies have been net sellers of Massachusetts mortgages over the past few years.

CHAPTER 3

BANK HOLDING COMPANIES

An Overview

As stated earlier, bank holding companies are included in this study because of their substantial influence in the Massachusetts commercial banking community. In addition, the writer will attempt to show that, through these institutions, savings banks in the State may, indirectly, exercise control over their commercial bank competitors. Whereas the main purpose of this chapter is to emphasize and help to explain the competitive relationship which exists between commercial banks and mutual savings banks in Massachusetts, no comparisons with other States have been made.

There are, in Massachusetts, only three bank holding companies. These are: The National Shawmut Bank of Boston, the Shawmut Association and the Baystate Corporation. Further, only two of these companies engage in activities traditionally performed by bank holding companies. This is so because the National Shawmut Bank of Boston is included in this category only because it is the parent company of the Shawmut Association. The Bank itself does not function as a holding company.

The nature of this relationship will be explained later in this chapter.

It has been mentioned that these holding companies have substantial influence in the State commercial banking industry. A better picture of the extent of this influence could be obtained from a general overview of the scope of their activities. Then, a more detailed study of each holding company (the Shawmut Association and the Baystate Corporation) will be made. Finally, the influence of mutual savings banks in the affairs of these companies will be shown.

The Shawmut Association and the Baystate Corporation, together, own a majority of the outstanding shares of twenty-one commercial banks in the state. These so-called member (or subsidiary) banks have 134 offices, throughout the Commonwealth. Thus, these holding companies control 44 per cent of all commercial bank offices in Massachusetts.[50] This, certainly, constitutes considerable influence. The above figures are considered highly significant to this study not only because of the proportion of commercial bank offices controlled, but, more importantly, because of the great importance to mutual savings banks of competition (or lack of competition) from such a large number of commercial banks on a statewide basis.

The writer will now briefly consider the structure of each of these two holding companies and then show their relationship to mutual savings banks.

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50. Baystate Corporation and Shawmut Association, Annual Reports, 1962.

The Shawmut Association

A good introductory statement for a study of this holding company is provided by Moody's Investors Service. This authority states that the Shawmut Association was:

> "Organized in Massachusetts under a declaration of trust dated May 21, 1928. Management of the trust is provided and supervised by the National Shawmut Bank of Boston. Appoihtment of trustees subject to the approval of the executive committee of the Bank."[51]

Although, as an investment trust, the Association invests in U. S. Government obligations, public utility common stocks and industrial common stocks as well as bank shares, a glance at the Annual Report for the year ended December 31, 1962, shows that the latter represent by far the most important investment category.

Investment in the capital stock of the twelve suburban banks (having 31 offices) represents more than 50 per cent of the Association's total assets. Further in 1962, dividends on bank stocks accounted for 62 per cent of the Association's total income.[52]

At this point it will be worthwhile to consider the nature of the relationship which exists between the National Shawmut Bank of Boston and the Association.

In the earlier mentioned declaration of trust under which the Association was established, it is stated that:

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51. Moody's Investors' Service, Inc., Bank and Finance Manual, (New York: Robert H. Messnes, 1962).

52. Shawmut Association Annual Report, 1962.

> " . . . while . . . such Bank (National Shawmut) will not itself own or hold any of such shares (i.e. of the Association) all of the original trustees thereof will be persons who are executive officers or directors of such Bank and the management accordingly will be conducted and controlled by those who at the same time are on the management staff of the Bank or directors thereof and as such engaged in promoting its business and welfare . . . . "[53]

Later, in providing for the appointment of successors to the original trustees, it is stated that:

> "In case of any vacancy in the Trustees occurring by reason of the death, resignation, removal, or disability determined by the other trustees of any of the trustees . . . a new trustee or trustees to fill such vacancy or vacancies shall be appointed by the remaining trustees, . . . subject, however, in the case of every appointment of a trustee to the approval of the Executive Committee of the Bank."[54]

The above citation from the Declaration of Trust should make amply clear the control over the trustees which is exercised by the Bank. This is especially important when the powers of these trustees are considered. Among their many powers, these individuals may

> " . . . exercise any and all powers and rights belonging to the holder of any stocks, shares, certificates of interest, bonds, or other securities, or obligations forming a part of the trust estate whether by voting or . . . "[55]

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53. Shawmut Association, <u>Declaration of Trust</u>, p. 1.

54. <u>Ibid</u>., p. 3.

55. <u>Ibid</u>., p. 6.

Thus, the National Shawmut Bank of Boston exercises, indirectly through the Association's trustees, substantial control over the management and policies of the member banks.

Now that the relationships between the Bank, the Association, and the member banks has been discussed, the envolvement of the mutual savings banks in this combine will be considered.

The rather substantial stockholdings of the mutual Savings Banks in the National Shawmut Bank of Boston and their representation on the Bank's board of directors (and the fact the President and Chairman of the Board are also savings bank trustees) have already been mentioned. The composition of the board of directors (trustees) of the Association will now be highlighted for the purpose of determining the extent of direct savings bank influence. For the purpose of this investigation every director was studied to discover if he was also a trustee of any savings bank. The results of this investigation were interesting indeed. Of the seven directors, no less than four were found to be mutual savings bank trustees. Among these were both the president and the Chairman.[56]

The above findings seem to indicate that through their influence at the Bank and, thus, the Association, mutual savings banks in Massachusetts have a medium through

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56. Standard and Poor Corporation, Register of Corporations, Directors and Executives (New York: Standard and Poor Corporation).

which they may greatly magnify their influence in the State's commercial banking system. In this connection it seems significant that at the present time, none of the Association's member banks are paying the maximum allowable rate of 4 per cent on time deposits. More accurately, these rates vary between 1 and 3½ per cent.[57]

The Baystate Corporation

According to Moody's Investors' Service, the Baystate Corporation was:

> "Incorporated in Massachusetts July 31, 1944. On October 9, 1944, acquired assets and liabilities of Old Colony trust Associates which trust was formally terminated on December 15, 1944.
>
> Operates as a holding company owning majority interest at December 31, 1962, in 9 banks in Massachusetts, operating 103 banking offices."[58]

Thus, in terms of total member bank offices, the Baystate Corporation is more than three times as large as the Shawmut Association. Approximately this same relationship exists with regard to total assets and total deposits of the members.[59]

It may also be noted that whereas the members of the Shawmut Association are concentrated in Eastern Massachusetts, the members of the Baystate Corporation are located throughout the state.

57. Interview with Mr. L. J. Scott, Vice President, Shawmut Association.

58. Moody's Investors' Service.

59. Annual Reports.

The potential influence which these member banks could, and very probably do have in the State banking community can be shown by considering the relationship which exists between the number of Baystate member offices and the total number of commercial and savings bank offices in Massachusetts.

Such an investigation revealed that these member offices represent only slightly less than one-fifth of all commercial bank offices. When compared to mutual savings banks, the conclusion is far more significant. Here it is found that these member banks have one-third as many offices as all mutual savings banks in Massachusetts.[60]

Thus, it would be difficult to overstate the importance to mutual savings banks of the competitive attitude of such a large number of banks.

A study of the relationship between the Baystate Corporation and the mutual savings banks was more difficult than in the case of the Shawmut Association. This was true because the names of the stockholders are not public information. However, the writer was able to obtain the names of the Corporation's directors. These were then studied to determine the degree of savings bank influence. The results are shown in Table 22.

Here we see that five of the eleven directors (including the President and Acting Chairman) are also mutual savings bank trustees. This, certainly, can leave little

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60. Baystate Corporation, Annual Report.

doubt as to the at least potential influence of the mutual savings bank industry in the affairs of this Corporation (including the policies of the member banks with regard to investments and competition for savings).

In this connection it is interesting that, in the 1963 Annual Report, Mr. Eiseman states:

> "The 8% increase in time Deposits was especially gratifying since early last year the Member Banks, in common with most commercial banks in Massachusetts did not join the industry-wide trend toward aggressive solicitation of time certificates of deposit and regular savings accounts by payment of the maximum permissible rates."[61]

In view of the findings presented in this chapter there appears to be little doubt that bank holding companies provide a mechanism through which Massachusetts mutual savings banks may, potentially, exercise considerable influence over their commercial bank competitors. Further, when the relatively marked disinterest of the State's commercial banks in the savings field which has been mentioned in this and earlier chapters, is considered there seems to be little doubt that this potential has been exercised.

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61. Ibid.

TABLE 22

Directors of the Baystate Corporation and the Shawmut Association, showing the Savings Bank Affiliations

BAYSTATE CORPORATION

Philip Eiseman, Trustee, Charlestown Savings Bank; President and Acting Board Chairman, Baystate Corporation

T. E. Cotting, Trustee, Provident Institution for Savings

F. C. Dumaine, Jr., Trustee, Suffolk-Franklin Savings Bank

F. H. Theopold, Trustee, Provident Institution for Savings

R. G. Emerson, Trustee, Suffolk-Franklin Savings Bank

F. D. Campbell

J. T. Noonan

J. A. Lunn

R. Wengren

R. Lewis

P. L. Reed

SHAWMUT ASSOCIATION

H. Schermerhorn, Trustee, Boston Five Cents Savings Bank; Chairman Shawmut Association

L. H. Martin, Trustee, Home Savings Bank; President, Shawmut Association

L. P. Stack, Trustee, Provident Institution for Savings

J. K. Benson, Trustee, Provident Institution for Savings

A. W. Diebert

B. A. Trustman

J. Wallace

Note: Data are from Moody's Bank and Finance Manual, 1962.

TABLE 23

Banks Controlled by the Baystate Corporation and the Shawmut Association

Baystate Corporation, 9 Banks -- 103 Offices
Beverley Trust Company
Harvard Trust Company
Manufacturers National Bank of Bristol County
Middlesex County National Bank
Newton Waltham Bank and Trust Company
Norfolk County Trust Company
The Union Market National Bank
Valley Bank and Trust Company
Winchester Trust Company
Shawmut Association, 12 banks -- 31 offices
National Bank of Plymouth County
County Bank and Trust Company
Everett National Bank
Lexington Trust Company
Melrose Trust Company
Needham National Bank
Newton National Bank
Merchants-Warren National Bank
Somerville National Bank
Wakefield Trust Company
Waltham Citizens National Bank
Winchester National Bank

Note: Data are from 1962 annual reports.

CHAPTER 4

CONCLUSION

Summary

Although it cannot be said that the mutual savings banks of Massachusetts have been entirely successful in their competition with alternative savings media, they have been relatively successful as compared with their counterparts in other states. This is not to say that Massachusetts is unique in this respect. These institutions are also enjoying considerable success in Connecticut, New Hampshire and Rhode Island and, to a lesser extent, in a very few other states. This paper has been limited to Massachusetts because this limitation permits a more detailed and, perhaps, a more meaningful discussion.

The relative success of Massachusetts savings banks has been described and explained in detail in the preceding chapter. It will be sufficient at this time to merely summarize these earlier comments.

Massachusetts savings banks are far from being unopposed in their attempt to maintain or increase the percentage of total savings in the State which they hold. In the writer's opinion, the most important of the banks' competitors in this regard are the savings and loan associations, commercial banks and life insurance companies. For this reason, it is these institutions which have been given most attention here.

Savings and loan associations in Massachusetts have been the savings banks' most important adversaries in the competition for the use of savers' funds. This can be seen easily from the rates of growth of these institutions in the periods studied as compared with mutual savings banks. However, in this connection it must be noted that the percentage growth rates of these institutions are considerably less impressive in dollar terms. This is true because the total deposits of savings and loan associations here total only about one-third those of mutual savings banks. For example, although savings and loan share accounts rose by 55 per cent in the period 1954-1960 as compared with a 39 per cent growth rate at mutual savings banks, total savings bank deposits were about three times those of savings and loan associations as of December 31, 1960. The future implications of the growth-rate differential will be discussed later.

Life insurance companies seem to be the second most important competitors of savings banks in Massachusetts with a rate of growth exceeded only slightly by their own. However, in terms of competition for investments (mortgages), these institutions, although important, do not seem to be very actively attempting to increase their holdings.

Commercial banks in Massachusetts, unlike in many other states, have not been, nor do they now appear to be, interested in actively competing with thrift institutions.

It is realized that no attempt has been made to show that demand deposits of mutual savings banks at commercial banks in Massachusetts are excessive. The only point being made here is that the existence of these demand deposits, although perhaps not important when taken alone, might be of significance when considered in addition to the other factors which have been mentioned.

As implied in the section dealing with competition from commercial banks, it appears that the reasons for these institutions' lack of interest in savings are not as entirely economic as many members of the banking community would have us believe. Behind all of the "good reasons" suggested by the bankers themselves, lie other reasons which seem to be the real ones. These are the commercial bank stock ownership by mutual savings banks on a scale unknown in other states, the interlocking directorates, large demand deposits of mutual savings banks at commercial banks, and the indirect influence exerted by the savings banks through bank holding companies.

A Lesson for Savings Banks in Other States

Although savings banks in Massachusetts enjoy certain advantages which it would be extremely difficult for such banks in other states to equal, there are certain characteristics of the situation here which might be successfully implemented elsewhere. The sale of savings bank life insurance is one of these.

It has been shown that only three of the eighteen mutual savings bank states permit the sale of low cost savings bank life insurance. It is the writer's opinion that savings banks in other states should strive to obtain permission to provide such protection. As noted earlier, the sale of this insurance seems to enable the selling institutions to obtain more deposits by attracting people who were formerly not depositors of the bank. Once introduced to savings banking, these individuals are quite likely to become regular depositors. Also, with the relative predictability of life insurance claims, the banks have at their disposal additional funds for their traditionally long-term investments. These funds may be invested by the individual issuing bank under the same laws governing the investment of deposits.

The importance of convenience as a factor affecting the competitive power of mutual savings banks was mentioned earlier. In this connection it should be noted that Massachusetts ranks first in the nation in terms of total savings bank offices. Also, the State is a very close second to New Hampshire in terms of offices per 10,000 persons. Thus, it would seem that in states where the convenience which savings banks can offer is limited by strict branching restrictions, every effort should be made by these institutions to have these limitations liberalized.

As earlier pointed out, Massachusetts and the other states having the highest percentages of total mortgage monies invested in conventional loans have also been the states offering the highest rates of return to savers and experiencing the greatest deposit growth. For this reason it would seem that savings bankers in other states might increase their percentage holdings of conventional loans where state law permits. In states where legal restrictions make such a shift impossible, more favorable legislation could be encouraged. This would permit the banks in these states to increase their own earnings, the rates offered to their depositors and thus, their rates of deposit growth.

It was noted earlier that the number of different services which financial institutions may offer may significantly affect their competitive power. It was suggested that this is one of the great advantages which commercial banks enjoy. For this reason it is argued that it is to the advantage of mutual savings banks to expand into these areas when economically and legally possible. In cases where state and/or federal legislation restricts such expansion, attempts must be made to change existing laws.

Further, it might be possible, in some cases, for mutual savings banks to take advantage of the popularity enjoyed by commercial banks as a result of the wide range of services which they OFFER. More specifically, by locating their offices near those of commercial banks and advertising their specialization in such areas as savings and mortgage lending, they might succeed in strengthening their position.

The Future of Savings Banking in Massachusetts

It would seem that mutual savings banks here will have as little to fear with regard to competition from commercial bank savings departments in the future as they have in the past. The bases of cooperation between these institutions seem strong enough to preclude any important changes under normal circumstances. However, if the nation, and more particularly Massachusetts, enters a period of unusually rapid growth in the future, the resulting increased demands for funds for industrial and other expansion might change the present situation importantly. In this case, any control which may be exercised by savings banks over commercial banks may be much more difficult to maintain. That is, in the face of increasing potential earnings which would probably accompany such a development, it might become difficult for the savings banks to maintain any control which they now enjoy.

Savings and loan associations, as shown earlier, are the most important competitors of mutual savings banks in Massachusetts. Although their total deposits are only about one-third those of the savings banks at the present time, their rate of growth is so much greater that in the not too distant future they could equal and surpass the savings banks in terms of total deposits.

For example, between 1945 and 1958, the percentage of total savings in Massachusetts fell from 76.4 per cent to 70.4 per cent. In this same period, the percentage held by savings and loan associations rose from 4.3 per cent to 20.2 per cent. Further, in the period 1948-1960, mutual savings bank deposits rose by 2,582 million dollars while savings and loan share accounts rose by 1,163 million. At first glance this observation might seem only to show the success of the savings banks. The picture becomes considerably darker, however, when we note that while the average growth rate of mutual savings banks in the State was 89% in the period 1950-1961, savings and loan associations gained 273%; a rate exceeding three times that of the savings banks.

These figures should signal the need for increased attention by savings bankers to the rapidly growing challenge these institutions represent.

Life insurance companies were the most important competitors of mutual savings banks in the period 1954-1960 in terms of percentage deposit (reserves) growth. It should also be noted that their rate of growth was only slightly less than that of the banks themselves.

These institutions will probably become more important in the future for two main reasons. First, due to the impetus provided by the agency system, life insurance companies tend to be much more aggressive in their drive for new business than are the deposit-type institutions. Second, life insurance companies are, quite obviously, much more active in their attempts to provide new and specialized services or "products" than are other types of financial institutions. These institutions offer almost innumerable types of protection. Further, most, if not all, of these companies offer "tailor-made" programs to serve each policy-holder according to his age, income, the size of his family, etc.

If the mutual savings banks of this State are to strengthen or even maintain their present position, they must take advantage of all sources and uses of funds legally available to them while at the same time trying to broaden and liberalize such regulation whenever possible and economically advantageous.

A Final Note on the Relationship Between Commercial Banks and Mutual Savings Banks in Massachusetts

The various interlocking arrangements which exist between commercial banks and mutual savings banks have already been discussed at some length. An attempt will now be made to draw a more general conclusion about the implications of these arrangements than has been done earlier. More specifically, these arrangements can be shown to have resulted in a tacit combination which rather resembles the cartels which have been formed in other, non-financial industries.

In Massachusetts, mutual savings bankers and commercial bankers appear to have entered into an agreement, tacit or otherwise, to reduce competition between their institutions in those areas where their functions tend to overlap. Several examples of this co-operation were mentioned in earlier sections of this paper. It will be sufficient here to re-state these areas of co-operation and to show that they constitute a kind of financial cartel. No attempt will be made here to show that these areas of co-operation constitute illegal restraints of competition.

According to one authority, a cartel is: "A Contractual association of independent business organizations, located in one or more countries, formed for the purpose of regulating the purchasing, production or marketing of goods by the members."[62] Even a brief consideration of this definition will reveal how very nearly it applies to the relationship between commercial and savings banks in Massachusetts. If the definition were revised to include non-contractual (tacit) as well as contractual associations, and services as well as goods, it would rather accurately describe the situation discussed in this paper. That is, it appears that commercial and savings banks in the State have entered into an association to regulate the purchasing (of investments) and the marketing (of services) of the members.

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62. Harold S. Sloan and Arnold J. Zurcher, A Dictionary of Economics (New York: Barnes and Noble, Inc., 1957).

In the area of investments, indications of co-operation between commercial banks and savings banks were mentioned earlier; i.e., the indications that commercial banks have limited themselves rather markedly to short term investments while savings banks have specialized in longer term investments. Of course, a certain degree of specialization of the above type can be expected as a result of differences in the nature and purposes of these institutions. However, it appears that the degree of specialization is greater than would normally be expected as a result of these factors. Two examples already cited may serve as examples.

First, mutual savings banks, although legally empowered to make personal loans of up to $1,500 have often not chosen to do so on a significant scale. As mentioned earlier, New England's largest savings bank does not make such loans. Interviews with other savings bankers indicated that this bank is not unique in this regard. Thus, some savings banks do not actively compete with the commercial banks in the area of consumer credit.

Second, according to several bankers who were interviewed, Massachusetts commercial banks have not entered the residential mortgage market on an important scale. This hesitancy of the commercial banks to actively compete in this field may, in some cases, be related to their hesitancy to actively compete with the mutual savings banks for time deposits.

A more detailed discussion of this point would be aided by an investigation of how near Massachusetts commercial banks are to the legal maximum investment in mortgages.

In the area of services, the apparent lack of competition for savings deposits by commercial banks probably provides the strongest indication of co-operation. It has been shown that Massachusetts commercial banks have not seriously attempted to increase their share of these funds.

The above observations seem to provide evidence that commercial banks and savings banks in the State have organized a kind of financial cartel in which the mutual savings banks specialize in providing savings facilities and residential mortgage credit and commercial banks specialize in providing checking account service and commercial and personal credit.

It might also be noted that not only the savings and commercial banks are affected by the operation of this cartel. This combine has probably also operated to the advantage of savings and loan associations by making it less necessary for them to raise interest rates in order to meet the more rigorous competition for savings which would probably otherwise exist.

Finally, it is reasonable to ask what the motivation is for the existence of this cartel. This is a difficult question to answer; especially in view of the fact that savings bank trustees, who seem to be among those most intimately involved, serve without pay. Thus, it appears that the motivation may not be entirely financial. A more accurate discussion would require further investigation.

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